IMF SURVEY

A PUBLICATION OF THE INTERNATIONAL MONETARY FUND

August 12, 1991

G-7 Summit Process Must Change, Says Group of Thirty Study

Significant changes are needed in the traditional conduct of economic summitry by the Group of 7 (G-7) industrial countries, according to a study by the Group of Thirty, a Washington-based public policy think tank.

The report, *The Summit Process and Collective Security: Future Responsibility Sharing*, grew out of a study group created by the Group of Thirty in October 1990 to examine burden sharing among nations. Chaired by Sylvia Ostry of the Center for International Studies at the University of Toronto, the study group includes H. Allen Holmes, Ambassador at Large for Burdensharing, U.S. Department of State; Alice Rivlin, Senior Fellow at the Brookings Institution; and Anthony M. Solomon, former President of the Federal Reserve Bank of New York and Head of the Economic Reform Program, Institute for East-West Security Studies.

Participants at the 1991 London summit: direct policy oversight should be assigned to the international institutions.

The report acknowledges that the annual economic summits have in the past been useful in helping industrial country leaders fashion collective responses to a variety of challenges, from exchange rate fluctuations to energy shortages. But *(Please turn to page 247)*

CONTENTS

Volume 20, Number 16

SELECTED TOPICS

The Economic Summit Process
Page 241

Military Spending Decisions
Page 251

Legacy of Hungary's Reforms
Page 253

NATIONAL ECONOMIES

Tunisia's Economic Reforms
Page 242

IMF ACTIVITIES

Seminar on Fiscal Management
Page 245

Use of IMF Resources
Page 246

IMF Disbursements
Page 247

From the Executive Board
Page 249

NATIONAL ECONOMIES

Tunisia's Economic Reforms Advance

IMF Approves Fourth Year of Support Under Extended Arrangement

On July 17, 1991, the IMF approved a one-year extension of Tunisia's three-year arrangement under the extended Fund facility (EFF), initially approved in July 1988, and an increase in total access under the arrangement to SDR 207.3 million from SDR 138.2 million. This is only the second time the IMF has approved such an extension and increase in access. The new fourth-year arrangement is designed to support Tunisia's continued adjustment efforts in the face of the adverse external shocks stemming from the Middle East crisis. In the following article, Paul J. Duran, Senior Economist in the IMF's North African Division, describes the measures Tunisia has taken to diversify and modernize its economy and to deal with the effects of the Middle East crisis.

In the first half of the 1980s, large external and internal imbalances emerged in Tunisia, owing to a serious deterioration in the terms of trade and a sharp decline in petroleum reserves at a time when domestic demand remained strong. To correct these imbalances, Tunisia embarked in 1986 on a comprehensive economic adjustment and reform program (see *IMF Survey*, June 18, 1990, page 178). The program comprises a comprehensive set of structural reforms, including price and import liberalization, tax reform, financial sector liberalization, and public enterprise restructuring and privatization, all of which are supported by prudent financial policies.

In the framework of the initial three-year extended arrangement, Tunisia introduced significant reforms aimed at diversifying and modernizing its economy. The share of total imports free from quantitative restrictions was raised to 70 percent at the end of 1990 from 53 percent in 1988. In addition, by the end of 1990, approximately 70 percent of prices of manufactured goods at the production level were liberalized, while the share of distribution margins liberalized was raised to 40 percent in 1991 from less than 10 percent in 1988.

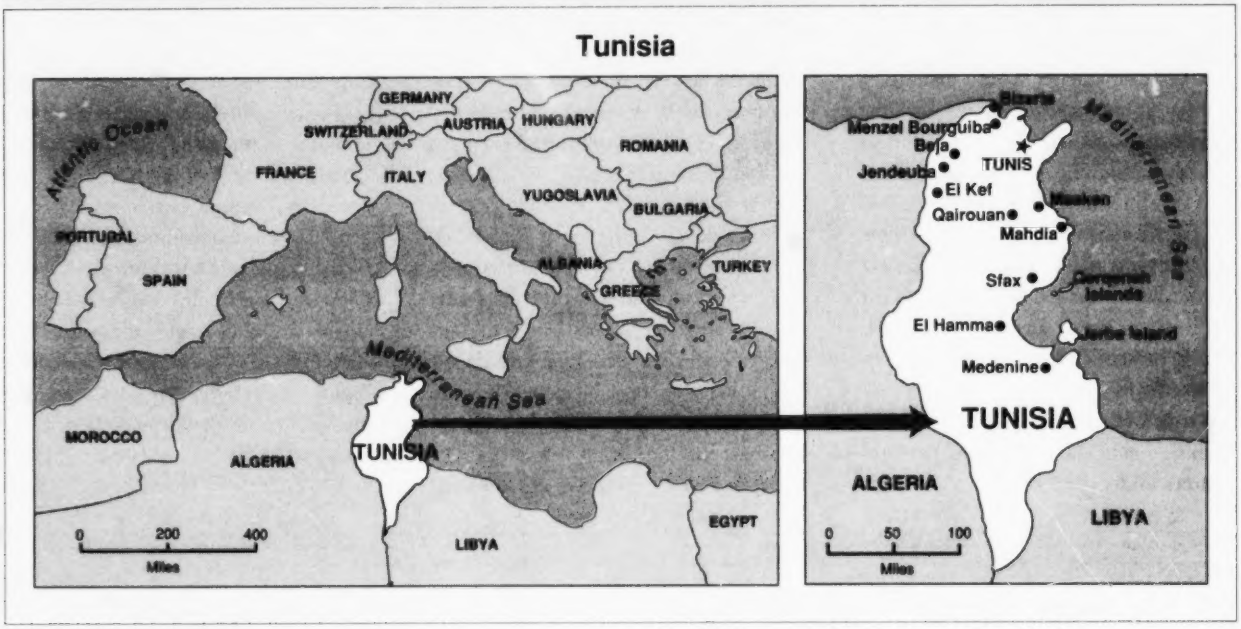
In the financial sector, the authorities introduced measures to substitute indirect instruments of monetary control for direct credit controls. At the same time, most interest rates were freed, and the scope of bank credits at preferential interest rates was significantly reduced, while the margin between preferential lending rates and the money market rate narrowed.

In the area of public enterprise reform, about three fourths of the 75 eligible public enterprises have been privatized. The enterprises that will remain public will be restructured on the basis of performance contracts agreed between the Government and the enterprises, under which managers will receive greater autonomy as well as incentives to improve productivity.

In the fiscal area, a comprehensive tax reform was implemented successfully during 1988–90. A value-added tax replaced a complex system of turnover and excise levies, while a new system of direct taxes introduced a unified personal income tax and a harmonized corporate income tax.

As a result of these policies and a return of investor confidence, major progress was made in restoring economic growth and investment, lowering inflation, and expanding and di-

A phosphate processing factory in Tunisia: public enterprises are being privatized and restructured.



versifying exports. Real GDP grew by 3.5 percent in 1989 and by 6.5 percent in 1990, while real investment expanded by 8 percent in 1989 and by 22 percent in 1990.

Until May 1991, Tunisia made no purchases under the EFF, which it regarded as a second line of reserves. Indeed, reflecting confidence in the improved balance of payments prospects, Tunisia requested, and obtained in May 1990, a reduction in the access under the original EFF, to SDR 138.2 million (100 percent of its quota) from SDR 207.3 million (150 percent of quota).

Then, with the onset of the Middle East crisis in August 1990 and its widespread impact on exports, tourism, and certain flows of external concessional financing, Tunisia's economy and balance of payments came under unexpected pressure. In particular, owing to Tunisia's close economic ties with the countries directly affected, the application of the economic embargo ordered by the United Nations Security Council had serious repercussions on its economy. Moreover, the adverse impact of the Middle East crisis coincided with an import expansion associated with the investment boom. As a result, the external current account deficit rose to 5.2 percent of GDP in 1990, while gross international reserves declined to the equivalent of 1.8 months of imports at the end of the year.

The outbreak of hostilities in the Middle East in early 1991—although brief—had a considerable impact on the Tunisian economy. The net loss of current foreign exchange receipts in 1991 could reach almost 5 percent of GDP, while the loss of government revenue could be as much as 1.5 percent of GDP.

Tunisia: Growth Resumes While Inflation Slows

	1988	1989	1990
		(percent change)	
Real GDP	1.5	3.5	6.5
Consumer price index	7.2	7.7	6.6
Broad money	19.3	11.2	6.3
Domestic credit	2.0	8.2	9.4
		(percent of GDP)	
Current account balance	1.0	–3.3	–5.2
Central government balance	–4.5	–4.3	–4.0
		(dinars per SDR)	
Average exchange rate	1.153	1.217	1.192

Data: Tunisian authorities

READEX FICHE

Faced with these adverse developments and prospects, the Tunisian authorities took strong corrective actions at a very early stage. These included a tightening of fiscal policy through the adoption of a supplementary budget containing significant expenditure cuts and revenue increases, and the pursuit of restrictive monetary policies. Given the prospect of a wider current account deficit and a deterioration of the external reserve position in 1991, Tunisia requested a one-year extension of IMF support under its extended arrangement. In May 1991, Tunisia made the first use of IMF resources under the EFF.

Prospects for 1991 remain somewhat uncertain. It is estimated that, owing to the effects of the crisis, 1991 could be a year of virtually no economic growth, despite a record cereal harvest. The Fund-supported program aims at limiting inflation to 7 percent, and at containing the external current account deficit to the equivalent of 5.6 percent of GDP. The authorities continue to monitor developments closely with a view to taking additional actions if economic developments depart from the program objectives. Despite the uncertainties, there is a reasonable prospect that the original objectives of the three-year extended arrangement will be fully attained by the fourth year, not only because of Tunisia's timely policy response to the Middle East crisis, but also because of the success of adjustment policies and reforms undertaken since 1986.

In order to further strengthen the economy, Tunisia is redoubling its efforts at modernization and reform. Detailed measures to implement the ongoing reforms in the various areas are in the final stages of preparation, and they will be contained in the Eighth Development Plan covering the period 1992–96, which will be adopted shortly.

Currency Units per SDR

Currency	JULY 16	17	18	19	22	23	24	25	26	29
Deutsche mark	2.37058	2.37289	2.3534	2.3459	2.34238	2.3496	2.33265	2.3313	2.32575	2.32816
French franc	8.05006	8.05645	7.99	7.96859	7.95297	7.9756	7.92795	7.91811	7.91749	7.92769
Japanese yen	181.116	181.072	181.905	182.984	182.018	182.902	182.886	183.454	184.397	184.321
Pound sterling	0.801272	0.802875	0.796862	0.793659	0.791265	0.794588	0.791894	0.792652	0.791417	0.792472
U.S. dollar	1.3225	1.32073	1.32923	1.33178	1.33249	1.32971	1.33355	1.33324	1.33235	1.33373
Argentine austral	3099.4	3114.8	3272.4	3255	3278.3	3263.9	3304.8	3299.1	3276.9	3237.3
Australian dollar	1.70491	1.70417	1.71536	1.72374	1.71757	1.71842	1.71694	1.72009	1.72072	1.7195
Austrian schilling	16.6754	16.7006	16.5841	16.4978	16.4949	16.5416	16.4253	16.3922	16.3653	16.4115
Bahrain dinar	0.49726	0.498514	0.49079	0.500742	0.501016	0.499971	0.501415	0.501258	0.500964	0.501482
Bangladesh taka	48.258	48.1934	48.5036	48.5959	48.6226	48.5211	48.6612	48.6499	48.6175	48.6678
Belgian franc	48.8102	48.8439	48.5269	48.2796	...	48.335	47.9378	47.8966	47.9513	48.0643
Brazilian cruzeiro	431.571	433.292	437.882	440.533	443.279	444.19	447.539	449.899	452.2	454.455
Canadian dollar	1.51588	1.51541	1.5346	1.54484	1.54062	1.53728	1.53865	1.53509	1.5318	1.53246
Colombian peso	838.465	838.333	844.247	846.693	848.063	848.719	849.671	850.087	849.879	851.587
Danish krone	9.17022	9.17643	9.11519	9.06263	9.05427	9.0879	9.0148	8.9947	8.99203	9.02402
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	5.70394	...	5.68246	5.63068	5.6391	5.64994	5.61291	5.60494	5.60919	5.63634
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	34.2304	34.2105	34.0871	34.2484	34.3251	...	34.3524	34.3852	34.3317	34.3774
Indonesian rupiah	2586.81	2584.67	2601.3	2606.25	2607.68	2602.24	2609.78	2609.15	2610.07	2612.78
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.411109	0.410659	0.413201	0.413987	0.414214	0.41335	0.414544	0.414447	0.414171	0.4146
Irish pound	0.885919	0.887587	0.880927	0.875237	0.875199	0.878392	0.872057	0.871171	0.870589	0.871605
Italian lira	1765.2	1767.43	1754.08	1757.4	1744.76	1749.87	1738.68	1737.01	1736.12	1739.85
Kuwaiti dinar	0.3874	0.387304	0.389787	...	0.388206	0.389681	0.38905	0.388959	...	0.389543
Libyan dinar	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929
Malaysian ringgit	3.67863	3.67889	3.70191	3.70629	3.70496	3.7079	3.7126	3.71307	3.71326	3.71777
Maltese lira	...	...	...	...	...	...	...	...	...	...
Mexican peso	...	...	...	...	...	...	...	...	...	...
Nepalese rupee	56.603	56.5272	56.891	56.8862	56.6308	56.8456	56.8092	56.5294	56.6249	56.6835
Netherlands guilder	2.67	2.67501	2.65474	2.63795	2.63753	2.64745	2.62989	2.62502	2.62273	2.62611
Norwegian krone	9.25023	9.24907	9.18764	9.13587	9.13955	9.15239	9.07481	9.0847	9.0813	9.12405
Omani rial	0.508601	0.507821	0.511089	0.512062	0.512342	0.511273	0.51275	0.512631	0.512289	0.512819
Pakistan rupee	32.5884	32.5448	32.7542	32.8166	32.8612	32.7826	32.8873	32.9198	32.8979	32.9587
Portuguese escudo	203.625	203.857	202.129	201.13	200.617	201.451	200.354	199.739	199.373	199.926
Qatar riyal	4.8139	4.80748	4.8384	4.84781	4.85026	4.84014	4.85412	4.85299	4.84975	4.85478
Saudi Arabian riyal	4.95276	4.94613	4.97797	4.98744	4.99018	4.97978	4.99414	4.99298	4.98965	4.99482
Singapore dollar	2.31682	2.31524	2.3318	2.33098	2.33119	2.33045	2.32998	2.33357	2.33508	2.33336
South African rand	3.80083	3.8011	3.8159	3.81549	3.80559	3.81826	3.80827	3.8217	3.80987	3.83113
Spanish peseta	148.592	148.801	147.626	146.41	146.138	146.488	145.529	145.186	145.804	145.709
Sri Lanka rupee	54.4738	54.4141	54.7778	54.8951	54.9252	54.8838	55.0489	55.1296	55.0927	55.2164
Swedish krona	8.57774	8.58342	8.53033	8.48864	8.49063	8.50217	8.4307	8.42208	8.44177	8.46852
Swiss franc	2.05649	2.06166	2.03904	2.03293	2.02738	2.03778	2.02633	2.03186	2.02917	2.03327
Trinidad and Tobago dollar	5.63468	5.62714	5.66336	5.67413	5.67724	5.6864	5.68176	5.68044	5.67884	5.68252
U.A.E. dirham	4.8549	4.8484	4.8796	4.88888	4.89157	4.88137	4.89548	4.89432	4.89106	4.89612
Venezuelan bolivar	77.8869	78.2533	78.5575	78.5738	79.05	79.3039	...	79.6944	79.6079	79.8237

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

IMF ACTIVITIES

Fiscal Affairs Department Conducts Seminar On Public Expenditure Management in Africa

Officials from 13 sub-Saharan countries met in Cotonou, Benin, in April to discuss problems and experiences in financial resource planning and management. The seminar, which was funded by the United Nations Development Program, was conducted by the IMF's Fiscal Affairs Department (FAD). A similar seminar was held in February in Nairobi, Kenya, for English-speaking countries (*IMF Survey*, March 18, page 93).

Expenditure Management

In his opening address, Fatiou Adekunte, Benin's Minister of Industry, Energy, and Public Enterprises, emphasized the importance of an efficient expenditure management system. He expressed his opinion that the inexorable expansion in public spending in most developing countries—especially in Africa—coupled with a quasi-absence of efficient management and control systems, has resulted in budget deficits. Such deficits, in turn, upset these countries' macroeconomic equilibrium, and thus, have created the need for structural adjustment programs. The Minister underscored the importance of recent efforts undertaken by African countries to bring their economies into balance through improved financial management.

Structure and Content

The seminar consisted of two types of sessions: FAD faculty lectures and discussions in the mornings, and afternoon workshops in which participants solved problems presented in case studies. The lectures and discussions covered a number of areas, including resource planning and management and the role of financial information systems. For resource planning, participants analyzed the role of the budget and fiscal policy in the structural adjustment process. The need to reduce public spending and, consequently, to set appropriate expenditure priorities was emphasized.

Expenditure planning and forecasting are indispensable . . .

Participants reviewed technical and organizational aspects of budget preparation in African countries. In particular, expenditure planning and forecasting were viewed as indispensable instruments for projecting public investment and as helpful strategic tools for dealing with financial stress.

Resource management was considered to be suffering from overly complicated budget execution procedures and redundant control systems. That is, public financial managers often find themselves lacking flexibility, which hampers their reactions to unforeseen events. Discussants agreed on the need to simplify budget execution procedures, to allow spending agencies more room to maneuver, and to place more emphasis on external control.

Participants agreed that in order to achieve full knowledge of and control over budgetary and treasury activities, government accounting and reporting systems should be comprehensive and ensure the transparency of all financial operations. In this context, they stressed the importance of improved nomenclature. Participants also discussed the role of the treasury in most of their countries, citing the institution's responsibility for cash management of the government.

In the workshops, participants were divided into three groups, with each assigned a case study. The first group developed a budgetary strategy for a hypothetical country in relatively poor economic condition with weak budget preparation procedures. Based on their strategy, the group members drafted a budget circular for the next year's budget preparation.

The second group analyzed the same hypothetical country's budget execution procedures, which were equally weak. This group suggested a comprehensive new budget structure, including a harmonized nomenclature and budgetary rules to improve budget execution.

The third group examined the country's budgetary system as a whole, including the organizational structures of the administrative units. It suggested that the tasks and powers of the different entities engaged in the budget process be clarified, along with

those of the entities involved in reorganizing the ministries of finance and of planning, in order to ensure cooperation and improve coordination of capital and recurrent expenditures. The group's proposal for budgetary reform specified the need for a new nomenclature and the introduction of multiyear investment planning.

Conclusion

Participants agreed that the issues chosen for discussion successfully addressed their problems and that the emphasis on practical solutions would help them in dealing with their "daily" problems. Although the participants agreed that their exchange of experiences, especially in the working groups, was very useful, they did not receive the false impression that their various experiences and solutions could easily be transposed from one country to another. Participants were well aware that, in spite of the similarity of the problems discussed, each country would have to develop solutions tailored to its own needs, that political factors might hinder proposed solutions, and that it would take time to see the results of improvements in public expenditure management.

Klaus D. Stein,
IMF, Fiscal Affairs Department

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
August 25	7.55
August 12	7.55

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF Treasurer's Department

Eight Countries Drew on IMF Resources in June

The Fund disbursed SDR 731.4 million under the General Resources Account in June, of which SDR 255.6 million was disbursed under stand-by arrangements to Czechoslovakia (SDR 99.56 mil-

Stand-By, Extended, Structural Adjustment Facility (SAF), and Enhanced Structural Adjustment Facility (ESAF) Arrangements as of June 30

(million SDRs)

Member	Date of Arrangement	Expiration Date	Amount Agreed	Undrawn Balance
Stand-by arrangements			**3,215.87**	**2,277.80**
Algeria	June 3, 1991	March 31, 1992	300.00	225.00
Bulgaria	March 15, 1991	March 14, 1992	279.00	151.13
Congo	August 27, 1990	May 26, 1992	27.98	23.98
Costa Rica	April 8, 1991	April 7, 1992	33.64	12.00
Czechoslovakia	January 7, 1991	March 6, 1992	619.50	298.69
Egypt	May 17, 1991	November 20, 1992	278.00	218.00
El Salvador	August 27, 1990	August 26, 1991	35.60	35.60
Guyana	July 13, 1990	December 31, 1991	49.50	6.54
Honduras	July 27, 1990	February 17, 1992	30.50	6.95
Jamaica	June 28, 1991	June 30, 1992	43.65	43.65
Nigeria	January 9, 1991	April 8, 1992	319.00	319.00
Philippines	February 20, 1991	August 19, 1992	264.20	207.58
Romania	April 11, 1991	April 10, 1992	380.50	249.60
Uruguay	December 12, 1990	March 15, 1992	94.80	85.80
Yugoslavia	March 16, 1990	September 15, 1991	460.00	394.30
Extended arrangements			**9,596.70**	**4,741.28**
Hungary	February 20, 1991	February 19, 1994	1,114.00	795.58
Mexico	May 26, 1989	May 25, 1992	3,263.40	699.30
Poland	April 18, 1991	April 17, 1994	1,224.00	1,147.50
Tunisia	July 25, 1988	July 24, 1991	138.20	15.90
Venezuela	June 23, 1989	September 22, 1992	3,857.10	2,083.00
SAF arrangements[1]			**532.00**	**192.98**
Benin	June 16, 1989	June 15, 1992	21.91	15.65
Burkina Faso	March 13, 1991	March 12,1994	22.11	15.80
Comoros	June 21, 1991	June 20, 1994	3.15	3.15
Equatorial Guinea	December 7, 1988	December 6, 1991	12.88	9.20
Lao P.D.R.	September 18, 1989	September 17, 1992	20.51	5.86
Mali	August 5, 1988	August 4, 1991	35.56	10.16
Pakistan	December 28, 1988	December 27, 1991	382.41	109.26
Rwanda	April 24, 1991	April 23, 1994	30.66	21.90
Sao Tome & Principe	June 2, 1989	June 1, 1992	2.80	2.00
ESAF arrangements			**1,831.07**	**548.37**
Bangladesh	August 10, 1990	August 9, 1993	258.75	115.00
Bolivia	July 27, 1988	July 26, 1991	136.05	45.35
Gambia, The	November 23, 1988	November 22, 1991	20.52	3.42
Ghana	November 9, 1988	November 8, 1991	388.55	48.00
Guyana	July 13, 1990	July 12, 1993	81.52	35.42
Kenya	May 15, 1989	May 14, 1992	241.40	60.47
Lesotho	May 22, 1991	May 21, 1994	18.12	15.86
Madagascar	May 15, 1989	May 14, 1992	76.90	25.63
Malawi	July 15, 1988	July 14, 1991	55.80	—
Mauritania	May 24, 1989	May 23, 1992	50.85	33.90
Mozambique	June 1, 1990	May 31, 1993	85.40	61.00
Niger	December 12, 1988	December 11, 1991	47.18	23.59
Senegal	November 21, 1988	November 20, 1991	144.67	25.53
Togo	May 31, 1989	May 30, 1992	46.08	15.36
Uganda	April 17, 1989	April 16, 1992	179.28	39.84
TOTAL			**15,175.64**	**7,760.43**

[1]For Sri Lanka, the three-year commitment period has expired, but the third annual SAF arrangement will not expire until October 21, 1991.

Data: IMF Treasurer's Department

lion), Algeria (SDR 75.0 million), Bulgaria (SDR 50.4 million), the Philippines (SDR 28.3 million), and Honduras (SDR 2.3 million), and SDR 392.3 million was disbursed under extended arrangements to Mexico (SDR 233.1 million) and Hungary (SDR 159.2 million). In addition, Czechoslovakia drew SDR 83.53 million under the compensatory and contingency financing facility.

A loan of SDR 17.0 million was made to Senegal under the ESAF.

Also, in June, Algeria, Comoros, and Jamaica entered into new arrangements with the Fund. At the end of the month, a total of 44 arrangements were in effect.

IMF Disbursements Up Sharply In First Half of 1991

Disbursements under the IMF's General Resources Account (which includes disbursements under stand-by and extended arrangements, the compensatory and contingency financing facility (CCFF), and the buffer stock financing facility (BSFF)) doubled to SDR 4.6 billion in the first half of 1991, compared with SDR 2.3 billion in the first half of 1990. Repurchases (or repayments) declined to SDR 2.4 billion, compared with SDR 3.2 billion, and net disbursements turned positive—for the first time since 1985. The most significant increase occurred in disbursements under the CCFF, which rose to SDR 2.1 billion in the six months through June 1991, compared with SDR 42.8 million in the same period of last year. During the period, disbursements under stand-by arrangements also rose to SDR 1.4 billion, compared with SDR 682.6 million. There was a decline, however, in disbursements under extended arrangements, which totaled SDR 983.4 million in the first half of this year, compared with SDR 1.6 billion in the same period of 1990. No disbursements were made under the BSFF in the first half of 1990 or 1991.

Total disbursements under the structural adjustment facility and the enhanced structural adjustment facility rose in the first half of 1991 to SDR 295.8 million, compared with SDR 244.6 million in the same period of last year.

Fund Disbursements Under Various Facilities

(million SDRs)

	First Half	
General Resources Account (GRA) Disbursements	**1990**	**1991**
Stand-by arrangements	682.6	1,428.8
Extended arrangements	1,621.5	983.4
CFF/CCFF	42.8	2,142.6
BSFF	0.0	0.0
Total GRA	2,346.8	4,554.8
Repurchases (repayments)	3,206.6	2,431.4
Net disbursements	(859.8)	2,123.4
Other disbursements		
SAF arrangements	51.9	23.9
ESAF arrangements	192.7	271.9
Total SAF and ESAF	244.6	295.8

Data: IMF Treasurer's Department

A New Approach To Summitry

(continued from front page) the collapse of Soviet power and the emergence of new global issues—East-West migration, the narcotics trade, and the environment, among others—now require a new, more geopolitical approach to policy coordination and crisis management by the Group of 7.

To enhance the ability of future summit participants to address today's more complex agenda, the Group of Thirty study makes three principal recommendations:

- Set a *core agenda* for future summits. Urgent matters, like the aftermath of the Middle East crisis and assistance for the Soviet Union, will continue to have a major place in summit deliberations, but heads of government should regularly and systematically address broader issues as well.
- Define, manage, and monitor *responsibility sharing* systematically and comprehensively. This would involve developing agreed performance measures and devising joint objectives and strategies among the G-7 countries in several areas.
- Improve *follow-up arrangements* for summit initiatives. One possibility is to institute G-7 interministerial meetings in addition to those for the finance ministers, along the lines of the European Community Council of Ministers mechanism.

The study group contends that establishing a "core agenda" would provide a strong incentive for G-7 leaders to review rigorously progress made on specific issues. As a result, they would be better prepared for subsequent summits. The report's own "candidates" for future G-7 deliberations include economic aid, the environment, trade and investment, de-

fense, and economic policy coordination. "Broadly speaking," the report explains, "these major topics . . . do seem to capture the issues of common welfare that require high-level agreement for effective policy coordination, where collective leadership by the G-7 could play a critical constructive role."

The second recommendation is for G-7 countries to assign direct policy oversight responsibilities to the major international institutions. These include the IMF for economic policy; the World Bank and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) for aid; the OECD, in coordination with the United Nations and regional bodies, for the environment; and the General Agreement on Tariffs and Trade for trade and investment.

The final recommendation calls for a strengthening of the summit follow-through mechanism. The report maintains that "at present, the impact of the annual summits is a hit or miss affair." While some initiatives "take on a life of their own and prosper," others die. It suggests that "perhaps a process of natural selection is at work and the fittest proposals do in fact survive but, given the informality and generality of the summit process, it would be remarkable if some important opportunities were not occasionally lost."

The study group's goal is to devise institutional mechanisms to ensure detailed implementation of agreed-upon courses of action from one summit to the next. It proposes a number of ways that this could be done. For example, it suggests that existing institutions, such as the IMF, could be used to ensure necessary follow-through, which up to now has been sorely lacking. In this context, the report points out that it is current practice for the IMF's Managing Director and its chief economist to be present for the summits and for the preparatory meetings among the "sherpas" (government officials who prepare the summit agendas, named after Nepalese mountain guides). But IMF officials are regularly excluded from a number of key discussions, a fact that "seems to fly in the face of the reason why the institution was set up in the first place," observes the report.

Sylvia Ostry: studying ways to make economic summits more effective.

Encouraging specialist ministers to participate in summit meetings might also serve to strengthen follow-through mechanisms. The authors reason that "close involvement of the specialist ministers, although it will be resisted by the economic and finance ministers, seems appropriate, as the G-7 summits have broadened in scope." There might, for example, be a case for a meeting of the G-7 defense ministers to work on post-Cold War security strategy for the industrial countries. Or they might get together with their aid ministers—relative political importance notwithstanding—to devise joint approaches to questions of development and arms sales to developing countries. The details of the interlinkages and trade-offs subsequently identified by future summit participants could be worked out by the specialist ministers concerned.

The Group of Thirty report calls upon future G-7 summits to devote more systematic attention to the "policy linkages and trade-offs" between such issues as trade and defense, and aid and the environment. It points out, for example, that linkages involving traditional East-West security and West-West export competitiveness issues have to be re-examined in light of heightened concerns about the proliferation of weapons in developing countries. Subsequent trade-offs between G-7 countries, the report suggests, will in any event be easier to negotiate when the issues—such as defense or trade—touch on common interests and aspirations.

Expanding on the issue of the trade-offs between trade and defense, the report calls for "a new strategy for the industrial countries toward the developing world," which would encourage G-7 members to abandon their alleged hypocrisy, whereby, for example, "development aid was given with one hand and arms were given with the other." In today's less predictable world, such practices are "no longer tenable."

Summing up, the report concludes that global security can be achieved only if all parties closely cooperate on a growing list of issues, at the very moment when the perception of a common external threat has never been lower. Overcoming this paradox will require bold and imaginative collective effort by the Group of 7 to strengthen the summit process.

John Starrels,
IMF, External Relations Department

Copies of *The Summit Process and Collective Security: Future Responsibility Sharing* are available for US$15.00 from the Group of Thirty, 1990 M Street, NW, Suite 450, Washington, DC 20036, U.S.A.

From the Executive Board . . .

Benin: Structural Adjustment Facility. The IMF has approved a loan equivalent to SDR 9.39 million (about $12.5 million) for Benin under its structural adjustment facility (SAF). [The SAF is a concessional IMF lending facility for low-income members that are implemeting economic reform programs to strengthen their balance of payments and improve their growth prospects.] The loan supports Benin's second annual economic and financial reform program, covering the period July 1, 1991 –June 30, 1992, and is being made available under the three-year SAF arrangement approved for Benin in June 1989, for a total of SDR 21.9 million (about $29.2 million). Benin drew SDR 6.3 million (about $8.3 million) upon approval of the first annual arrangement.

The first year of Benin's structural adjustment program witnessed momentous changes in the country's economic and political system. Following many years of tight central control under a socialist-oriented, one-party rule, an open democratic system of government evolved, culminating in multiparty elections in early 1991. In the interim, economic performance suffered, the banking system collapsed and most public enterprises were experiencing severe financial difficulties, and there were large internal and external imbalances with substantial external and domestic arrears. In summary, although progress was made in the initiation of a number of structural reforms during the first year of the program, many of the program's financial objectives were not attained.

The macroeconomic objectives of Benin's medium-term program are to achieve a rate of real GDP growth of about 4 percent annually by 1994; to contain the rate of inflation at about 2.5 percent a year; and to improve the overall balance of payments position. To achieve these objectives, the program envisages an improvement of government finances while gradually eliminating arrears; accelerating public enterprise reform; and rehabilitating the banking system and, at the same time, protecting priority social needs and revamping the infrastructure.

Over the program period, agriculture is expected to benefit from structural policy reforms designed to reduce marketing costs, improve services, and increase inputs. The industrial sector will benefit from the reforms of public enterprises, a new investment code, and improved incentives resulting from fewer regulations. Commerce is expected to benefit from the increase in transit trade with neighboring countries and the liberalization of the external trade regime. The program envisages a rise in the total investment to GDP ratio from about 11 percent in 1989–90 to about 15 percent in 1994. The quality of investment is expected to be enhanced through privatization of public corporations, promotion of private sector activity, improvement of public investment programming and greater efficiency of government expenditure.

Consistent with this medium-term framework, key objectives of the program for 1991–92, which this SAF loan supports, are to accelerate the rate of real GDP growth to 3 percent in 1991 and 3.5 percent in 1992; to contain the rate of inflation at 2.5-3.0 percent a year; and to limit the current account deficit to 11.2 percent in 1991 and 10.5 percent in 1992. Economic performance during the program period is expected to benefit from the return to political stability and the renewed commitment to economic reform following the elections as well as the anticipated increase in external assistance.

Benin joined the IMF on July 10, 1963, and its quota is SDR 31.3 million (about $41.7 million); its outstanding financial obligations to the Fund resulting from past operations and transactions currently total SDR 6.23 million (about $8.3 million). [A member's quota in the IMF determines in particular its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.]

Press Release No. 91/35, July 26

Tanzania: Enhanced Structural Adjustment Facility. The IMF has approved a loan equivalent to SDR 181.9 million (about $242 million) for the Government of Tanzania under the enhanced structural adjustment facility (ESAF), in support of the country's economic and financial reform program for the period July 1991–June 1994. [The ESAF is an IMF concessional lending facility for assisting its low-income members that implement strong structural economic programs to improve substantially their balance of payments and improve their growth prospects. Under the ESAF, loans carry an interest rate of 0.5 percent, and are repayable over 10 years with a 5½ year grace period]. The loan will be disbursed over a 3-year period. During the first year, Tanzania may draw a total of SDR 53.5 million (about $70.71 million), in two semiannual installments.

Tanzania has recently completed implementation of a three-year economic recovery program supported by financing from the IMF's structural adjustment facility (SAF). [The SAF is a concessional IMF lending facility with a maximum availability of funds of 70 percent of a member's quota]. While the objectives for the first two years under the SAF-supported program were not fully attained, performance during the third year (covering calendar year 1990) showed marked improvement, particularly in achieving positive per capita growth and reducing inflation. Most of the structural reforms envisaged under the program were implemented, including trade liberalization, provision of production incentives for maize production, and improvement of the marketing of domestic and export crops.

Tanzania's program for 1991/92–1993/94, to be supported under the ESAF, aims at achieving an average growth rate of more than 4 percent a year, leading to a faster increase in per capita GDP than was realized in 1987–90, while further reducing inflation by 1994 to levels prevailing in trading partner countries. The program further aims at reducing Tanzania's dependency on exceptional balance of payments financing in order to achieve a viable balance of payments position by the end of the program period. In

the social field, the program seeks to increase per capita spending on health and education as a proportion of budgetary expenditures. The Government is currently drafting an Environmental Action Plan to be completed by mid-1992 that will provide a comprehensive framework for environmental management.

For 1991/92, Tanzania's economic and financial program is designed to achieve a real economic growth rate of 5 percent; reduce the average rate of inflation to 14 percent; contain the overall budget deficit to 5.8 percent of GDP; narrow the current account deficit; and increase the country's foreign reserves.

To attain these objectives, Tanzania's program provides for a continuation of exchange and trade reforms, including more flexible management of the exchange rate. Fiscal policies are designed to broaden the revenue base and improve public expenditure allocation, monitoring, and control. In the financial sector, Tanzania has embarked on a far-reaching reform program, including both the reform of existing public financial institutions and the opening of Tanzania's financial sector to private investors both domestic and foreign. This is accompanied by a liberalization of interest rate policy. The program also envisages continuation of the reform of the public enterprise sector, a comprehensive civil service reform, and further liberalization of the marketing of major agricultural exports and food crops.

Tanzania joined the IMF on September 10, 1962, and its quota is SDR 107 million (about $143 million). [A member's quota in the IMF determines in particular its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Outstanding financial obligations to the IMF resulting from past operations and transactions currently total SDR 86.04 million (about $115 million).

Argentina: Stand-By Credit. The IMF has approved a stand-by credit for Argentina authorizing drawings of up to SDR 780 million (about $1,040 million) during the period through June 1992 to support the Government's economic reform program. At the request of the Argentine authorities, 25 percent of each of the four disbursements will be set aside to support eventual debt-reduction operations.

Over the last two years, Argentina has made progress in reorienting its economic policies toward a reduction in the role of the state and toward improving the efficiency of the economy through greater reliance on price signals. Under the most recent economic program supported by the IMF, price controls were eliminated, the Government ceased its involvement in private sector wage determination, and the tax system was simplified. Also, the exchange system was unified and exchange restrictions were eliminated, while trade barriers were drastically reduced. A program of privatization of public enterprises was launched, and the proceeds were used to buy back a significant amount of the country's foreign commercial debt. While some progress was achieved in the key objective of bringing down inflation, the authorities have had to face periodic bouts of renewed inflation and exchange rate instability.

To bring inflation firmly under control in the shortest time possible, the economic team that took office in January 1991 designed an economic program centered on achieving a fiscal balance that does not rely on central bank financing. To reinforce the commitment to the achievement of price stability, the authorities obtained legislative approval providing for a fixed exchange rate regime, requiring that the Central Bank retain sufficient international reserves to back fully the monetary base, allowing for the settlement of contracts in any currency, and prohibiting the use of indexation in austral-denominated contracts. At the same time, the authorities imposed a freeze on public sector tariffs, salaries, and pensions. These measures led to a sharp decline in interest rates and inflation in the second quarter of 1991.

Argentina's economic program for 1991–92, which the stand-by credit supports, is designed to foster economic growth, rapidly reduce inflation to a very low level, and maintain an adequate level of international reserves. To these ends, the program contemplates a primary surplus of the nonfinancial public sector equivalent to 3½ percent of GDP over the next four quarters, based on a combination of revenue improvements, expenditure restraint, and asset sales. This surplus would enable the payment of programmed debt service and some strenghtening of international reserves for eventual use in debt-reduction operations. The economic program includes a number of structural elements, including improvements in tax administration, reduction of staffing levels in the public sector, continued opening of the economy to international trade, reforms of the labor market, and further privatization of public enterprises.

In the energy sector, the state oil company, the largest public enterprise, is being downsized for eventual privatization. In preparation for this, all price controls on petroleum products were eliminated in January 1991. A number of the state oil company's non-core operations have already been sold. Legislation has also been approved for the privatization of the state electric and gas enterprises. Additional privatization is also contemplated in the transportation sector and among industries controlled by the Ministry of Defense.

It is expected that the authorities will discuss with official creditors of the Paris Club a rescheduling of Argentina's official debt and will continue their discussions with commercial bank creditors on steps toward achieving a normalizing of relations. The implementation of the structural reform program and the achievement of macroeconomic stability, together with an improvement in relations with external creditors, should provide greater incentives for capital formation and set the stage for a resumption of higher and sustained economic growth.

Argentina has been a member of the IMF since 1956, and its quota is SDR 1,113 million (about $1,484 million). [A member's quota in the IMF determines in particular its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Its outstanding financial obligations to the IMF resulting from past operations and transactions currently total the equivalent of SDR 1,713.6 million (about $2,285 million).

Press Release No. 91/37, July 29

SELECTED TOPICS

Economic, Financial, and Political Factors Play a Role in Military Spending Decisions

A great deal of variation exists in the proportion of GDP that countries allocate to military expenditures, with some allocating as much as one fourth of their GDP and others spending less than 1 percent. At times, the reasons for these differences are obvious; in other circumstances, they appear to be quite mysterious.

Because of conflicting empirical results, no consensus has yet been reached on what variables contribute to a country's military spending decisions, prompting some analysts to state that military expenditures are autonomously determined. Others have questioned the applicability of econometric analysis to a field where country-specific conditions seem to dominate.

In the following article, which is the second of two on military spending (see IMF Survey, *June 24, page 193), Daniel P. Hewitt of the IMF's Fiscal Affairs Department presents econometric results from an analysis of the determinants of military expenditure in 125 countries during 1972–88.*

The econometric analysis in this study is based on a more comprehensive data base than other cross-section empirical studies of the demand for military expenditures. Over two thousand observations derived from 125 countries over a 17-year span are used, in contrast to previous studies, which have tended to analyze data for a selected number of countries over a limited period of time, normally one year.

Given the wide span of the data, one might expect that no concrete findings would emerge. The conventional wisdom in much of the existing literature is that the decision-making process for military expenditures is country specific rather than determined by economic, financial, and quantifiable political variables.

The ability of the model used in this study to explain over 55 percent of the variance in military expenditures indicates that significant patterns do exist. Furthermore, the fact that predictions regarding the signs of so many variables were confirmed indicates that the public choice framework—where the leadership chooses the level of central government expenditures and the share for the military—is useful for analyzing determinants of military expenditure.

In the model, it is assumed that each government optimizes its own objectives, taking into account resource constraints, the welfare of the citizens, and its own political priorities. The government's political priorities are assumed to be based on political circumstances, as indicated by the presence of international or civil war, and on the form of government.

The income constraint is determined by the level of GDP, the efficiency of the revenue system, and the level and cost of foreign financing. The cost of providing defense or security—a function of a country's geographical features and population level—also influences the demand for military expenditure.

These features combine to form a two-equation system where the level of military expenditures and the level of central government expenditures are determined simultaneously. The government chooses the budget size based on the availability of funds, the welfare of its citizens, the political situation, and the leadership's priorities and ideology. Simultaneously, the leadership chooses the military's share of central government expenditures based on the level of overall government spending and on other economic, geographical, and political factors.

Hewitt: different forms of government have different military spending patterns.

The analysis shows that the ratio of military expenditures to *GDP* is approximately constant; the ratio increases moderately with GDP at low levels of GDP and is constant at high levels. The elasticity of military expenditures with respect to *per capita income* is somewhat greater than one; thus, military expenditures rise more quickly than per capita income.

Several proxy variables for the ability of governments to obtain external financing confirm that military expenditures react to economic conditions.

Heavily indebted middle-income countries are found to allocate less to the military. Small, low-income economies—which normally have limited financial leverage because of their low per capita incomes and small populations—also spend less on the military. In addition, the net flow of public and publicly guaranteed external financing, which indicates the level of concessional financing available to a nation, is positively correlated with military expenditures.

The results indicate that external financing increases military spending in two ways. First, it increases government spending, which indirectly increases military appropriations. Second, external financing induces a shift in the mix of government expenditures toward the military, implying that military expenditures receive a disproportionate share of external financial resources relative to other budgetary items.

Military expenditures with respect to central government outlays are found to be relatively inelastic. This result implies that military expenditures adjust somewhat less than proportionally to central government expenditure changes. Conversely, the elasticity of central government spending with respect to military expenditures is found to be close to the average ratio of military outlays to central government expenditures. This result implies that autonomous increases in military spending, on average, are accommodated by an approximately equal increase in central government expenditures rather than by a crowding out of other government activities.

The model indicates that different forms of government tend to have different patterns of expenditures. Monarchies and military governments tend to have relatively modest public sectors that allocate a disproportionately large share to the military. Socialist governments tend to have very large public sectors that allocate somewhat more to the military than do multiparty democracies. The reasons for these patterns undoubtedly reflect political priorities and the ideology of the leadership. However, the reverse causality could exist. The geopolitical status of a country could influence both the type of government and the level of military expenditures. Geographical variables, such as land area and border length, are also found to have had a significant effect on a country's level of military spending.

Seven Major Industrial Countries: Current Economic Indicators

(seasonally adjusted)

	United States	Japan	Germany[1]	France	United Kingdom	Italy	Canada	Total Seven Countries
Real GNP (or GDP)				(percent change at annual rate)				
Latest quarter over year ago	–0.6(Q2)	5.9(Q1)	5.2(Q1)	1.2(Q1)	–2.5(Q1)	0.2(Q1)	–2.8(Q1)	1.2(Q1)
Latest quarter over preceding quarter	0.4	11.2	9.7	1.0	–2.1	1.2	–4.6	–1.6
Industrial production				(percent change at annual rate)				
Latest month over year ago	–2.9(Jun)	4.3(May)	5.4(Jun)	0.1(May)	–6.2(May)	–3.0(May)	–4.2(May)	–1.0(May)
Latest three months (as indicated)	1.6	–3.6	–1.8	—	–3.7	–10.0	1.0	–3.0
over preceding three months	(Apr-Jun)	(Mar-May)	(Apr-Jun)	(Mar-May)	(Mar-May)	(Mar-May)	(Mar-May)	(Mar-May)
Consumer prices				(percent change at annual rate)				
Latest month over year ago	4.6(Jun)	3.4(May)	4.4(Jul)	3.4(Jun)	5.9(Jun)	6.7(Jul)	6.3(Jun)	4.4(Jun)
Latest three months (as indicated)	2.1	1.2	5.8	2.1	3.8	6.1	2.6	2.1
over preceding three months	(Apr-Jun)	(Mar-May)	(May-Jul)	(Apr-Jun)	(Apr-Jun)	(May-Jul)	(Apr-Jun)	(Apr-Jun)
Money supply (M2 or M3)				(percent change at annual rate)				
Latest month over year ago	3.3(Jun)	3.7(Jun)	NA[2]	0.8(Jun)	7.9(Jun)	9.8(May)	8.6(Jun)	5.6(Jun)
Latest three months (as indicated)	4.7	4.1	NA[2]	3.5	9.8	6.0	7.2	5.1
over preceding three months	(Apr-Jun)	(Apr-Jun)		(Apr-Jun)	(Apr-Jun)	(Mar-May)	(Apr-Jun)	(Apr-Jun)
Unemployment				(percent of labor force)				
Latest month	6.8(Jul)	2.1(Jun)	5.6(Jun)	9.5(May)	8.1(Jun)	10.4(May)	10.5(Jun)	6.6(Jun)
Corresponding month year ago	5.5	2.2	6.5	8.8	5.7	10.8	7.5	5.6
Trade balance				(billion U.S. dollars)				
Latest month	–4.6(May)	8.2(Jun)	0.8[3](May)	–0.6(Jun)	–0.6(Jun)	–0.8(Jun)	1.1(May)	–0.9(May)
Corresponding month year ago	–8.1	6.0	NA[3]	–0.2	–2.8	–0.1	1.0	–1.7

Note: Data above are as of Wednesday preceding publication date. For specifications and sources of data, see *IMF Survey*, July 24, 1989, page 236.
[1]All data in the *CEI* for Germany cover the former west Germany only, unless indicated otherwise.
[2]Data through December 1990 cover west Germany only.
[3]Data through June 1990 cover west Germany only.

Data: National sources, IMF Statistics Department, and international press and wire services

IMF Study Examines Legacy Of Economic Reform in Hungary

What Hungary's reforms accomplished from 1968 to mid-1990 and the specifics of the current Government's comprehensive program, which was launched in the fall of 1990 with IMF support and modified in March 1991, are examined in a study entitled *Economic Reform in Hungary Since 1968* by IMF economists Anthony Boote and Janos Somogyi. The study, which is No. 83 in the IMF's Occasional Papers series, focuses on the economic reforms adopted by successive Hungarian governments from 1968 to 1990 and their effects. The authors then discuss how the Government that took office in May 1990, following the first free election in forty years, has sought to build upon the earlier reforms while tackling the macroeconomic imbalances that it inherited.

Reforms:1968 to Mid-1990

The authors point out that Hungary's 22 years of economic reforms had many positive aspects, including significant price and trade liberalization, important institutional reforms in the areas of banking and taxation, and improvements in the flexibility of the economy. The overall results were, however, "clearly unsatisfactory." Notably, the Government continued to maintain substantial formal and informal controls; reform measures were often partial, inconsistent, and subsequently reversed; and the relationship between the state and state enterprises remained fatally flawed, with the state's domination of economic activity reflecting the fusion of economic and political power in the Hungarian Socialist Workers' Party.

In reviewing Hungary's economic reforms, the authors discuss the overall framework adopted under the New Economic Mechanism (NEM) of 1968 as well as the reforms of microeconomic decision making, the price system, the trade and exchange rate regimes, wages and the labor market, the fiscal system, banking and the capital market, and agriculture.

Although there were positive aspects, the overall results of past reforms were "clearly unsatisfactory"

The authors note that *the NEM* aimed at modifying certain basic features of traditional central planning but "without overstepping the limits of the established social-political system." It eliminated directives and commands from the center, moderately expanded the role of the private sector, and envisaged a closer direct relationship between the domestic economy and foreign markets. However, the role of prices and wages in allocating resources was limited,. the exchange rate and interest rates did not play a significant role as policy instruments. Morever, the banking system and other institutional features of the economy remained essentially unchanged. The result was "a set of conflicting signals that precluded fundamental economic change."

In the area of *microeconomic decision making*, the authors point out that although enterprises were expected to evolve into autonomous entrepreneurial units that would respond to market signals and macroeconomic policies, their institutional relationship to their supervisory agencies (mostly governmental bodies) was not fundamentally changed. They suggest that the poor performance of state enterprises "resulted largely from interference by the central authorities" and from the lack of effective exercise of ownership rights.

Since the 1950s, Hungary has made repeated attempts at *price reform*, according to the authors. Notably, in 1968, the Government introduced a three-tiered price system, encompassing fixed prices, which it set; flexible prices, which were allowed to fluctuate between officially set limits; and so-called free prices, set by enterprises according to predetermined rules.

In 1979–80, the Government raised consumer prices both to curb consumer demand and to encourage a shift of resources to the external sector. It also linked domestic prices of energy and raw materials to world market levels. The authors suggest that, as a result of repeated efforts at price reform, Hungary "avoided the accumulation of major distortions in relative prices that characterized most centrally planned economies."

Distortions were not absent, however. For example, the Government's pricing rules were such that they constrained only the profit margins, and not the production costs, of enterprises. In addition, the remaining administrative controls and the close monitoring of free price formation (to control inflation) "slowed the adjust-

ment of prices to market conditions." Moreover, price distortions arising from differentiated taxes and subsidies "continued to interfere with a rational allocation of resources."

The authors point out that, until 1991, Hungary's *foreign trade system* consisted of two separate regimes of approximately equal importance in terms of the volume of trade; one governed trade with market economies and the other trade with the socialist world. Trade reforms focused on the former. In the 1980s, the Government took a number of initiatives in this area. Notably,

- In 1981, it expanded the role of "parallel" foreign trade transactions, whereby different foreign trade organizations were allowed to trade specified products.
- In 1986 and 1987, it widened the scope for import and export rights.
- In 1988, it ended the system of foreign trade as a state monopoly by allowing any organization registering with the Ministry of Trade (including private entities) to engage in foreign trade transactions.
- Since 1989, it has liberalized imports from the convertible currency area.

Among other external sector reforms, the authors note that in 1968, the Government made the exchange rate a potential policy instrument by unifying multiple rates that had, during the traditional central planning era, been differentiated essentially by individual product. However, concerns about the inflationary effects of devaluation continued—at least until the late 1980s—to constrain exchange rate policy. Since January 1, 1991, trading with socialist countries has been conducted at market prices and in convertible currencies.

Recognizing the key importance of wage liberalization in enhancing economic efficiency, the authorities adopted "a plethora of wage schemes" since 1968, according to the authors. Although these schemes largely prevented runaway wage increases, they did not do much to correct the distortions in the wage structure that had been entrenched since the days of central planning. This failure "reflected competing and inconsistent objectives of succesive wage reforms, influenced by . . . constraints on the scope of acceptable income distribution."

In the *fiscal area*, the authors point out that following the winding down of central planning in 1968, the Government resorted to a complex system of taxes and subsidies, which grew more complex during the 1970s. The result was "a system of multiple taxation with multiple aims that tended to violate the basic tenet of the 1968 reform and the general principles of neutrality, transparency, stability, and equity of taxation."

The Government simplified the tax system with the price reform of 1980. But part of the gain in transparency and predictability of fiscal instruments was later eroded by frequent tax adjustments and confiscatory withdrawals of enterprise financial assets.

During 1988–90, the Government introduced a number of new taxes (in-

Hungary: Economic and Financial Indicators

	1983	1984	1985	1986	1987	1988	1989	Prov. 1990
	(annual percent change, unless otherwise specified)							
National income and prices								
GDP at constant prices	0.7	2.7	–0.3	0.7	3.9	–0.2	–0.2	–5.0
Consumer prices[1]	7.3	8.3	8.1	5.4	10.8	14.7	18.9	33.4
External sector								
Nonruble exports, f.o.b. (in U.S. dollars)	0.3	–1.7	–8.5	0.1	11.6	16.5	5.5	15.5
Nonruble imports, c.i.f. (in U.S. dollars)	–1.3	–3.5	1.3	13.4	9.1	–1.4	5.1	9.9
Real effective exchange rate (depreciation (–))	–4.7	1.7	3.3	–10.3	–10.1	–4.6	0.9	1.8
Money and credit								
Broad money	3.0	2.7	11.4	9.2	10.2	3.3	13.3	23.8
	(percent of GDP, unless otherwise specified)							
Consolidated budget balance	–1.1	1.4	–1.0	–3.2	–2.9	–0.9	–0.8	0.6
External current account balance in convertible currencies	0.3	0.3	–4.1	–6.3	–3.4	–2.9	–4.9	0.4
Gross external debt in convertible currencies[2]	54.2	57.5	63.9	71.3	74.1	73.2	75.5	64.6
Debt service ratio in convertible currencies, in percent of merchandise export earnings[3]	48.7	55.0	88.1	99.9	74.2	63.8	55.4	57.0
	(million U.S. dollars, unless otherwise specified)							
External current account balance in convertible currencies	71	65	–846	–1,495	–879	–804	–1,438	127
External current account balance in nonconvertible currencies	–251	–26	390	133	203	232	818	114
Overall balance of payments in convertible currencies	489	317	457	105	–547	175	81	–562

[1]Percent change from the beginning to the end of the year.
[2]Including the use of IMF resources.
[3]Debt service, including IMF repurchases, in percent of earnings from merchandise exports.
Data: Hungarian authorities; and IMF staff estimates and projections

cluding a value-added tax, personal income tax, and an enterprise profit tax) and abolished several existing levies to correct the distortions stemming from the discretionary and selective system of taxation. It also prepared a blueprint for comprehensive budgetary reform, whose main goal was to scale down and rationalize government intervention in the economy.

Turning to *financial sector reforms*, the authors point out that the Government did not significantly alter Hungary's highly concentrated and specialized banking system and segmented financial structure—established in the late 1940s—until the mid-1980s. In 1985, it adopted preliminary institutional reforms, which included the separation of central banking and commercial banking functions within the National Bank of Hungary (NBH) (the country's dominant bank) and the removal of various constraints on the flexibility of banking activities. In 1987, the Government implemented the main phase of banking reform—the establishment of a two-tiered banking system, wherein the domestic commercial banking operations of the NBH and the State Development Bank were taken over by three new commercial banks.

Further institutional reforms followed over the next two years, including the integration of banking services between the enterprise and household sectors (which allowed banks and savings institutions to compete across the economy) and the decentralization and liberalization of foreign exchange transactions. The Government also established a system of prudential regulation and banking supervision.

The 1990 Program

The authors point out that, in the fall of 1990, Hungary's newly elected Government adopted a comprehensive, medium-term program designed to put in place within three years the most important elements of a modern market economy—including the institutional framework. The IMF is supporting this program through an extended arrangement for $1.6 billion over three years. In addition, the IMF has provided $0.3 billion to help Hungary cover higher oil import costs.

As part of the reform, the Government is committed to reducing the share of state-owned property to less than half of total assets in the competitive sphere of the economy by 1993. Unprofitable enterprises will be restructured or closed, with the process accelerated by a new bankruptcy law. The Government will also actively promote new private sector enterprises and encourage foreign investment.

Competition will be strengthened by the major liberalization of prices and imports that the Government initiated at the beginning of 1991 and under which the share of consumer prices free from controls was raised to about 90 percent, with 70 percent of domestic industrial production subject to import competition.

The Government aims to make wage increases more responsive to labor market conditions and financial pressures on enterprises, thus reducing the importance of tax-based income policies and central wage agreements. It has taken steps to improve the oper-

ation of the labor market and to enhance workers' skills. It has also begun a major reform of social assistance programs to direct benefits more closely to those in greatest need.

In the financial sector, the Government intends to subject the banking system to prudential supervision that conforms to international standards and to rely increasingly on market-based instruments of monetary and credit control.

A crucial element of the program, according to the authors, is tight financial and budgetary policies aimed at regulating domestic demand. They note that Hungary's economy is faced with serious external and domestic shocks, including a terms of trade loss resulting from the 1991 switch by the Council for Mutual Economic Assistance to trading at world market prices, higher world oil prices (at least temporarily), and the continuing effects of the century's worst drought, which occurred in 1990.

The immediate goal of current policies is to ensure that, in 1991, both the external and fiscal accounts adjust to one half of these shocks, while inflation is controlled. Thus, financial policies for this year will aim to limit the fiscal deficit to 1½ percent of GDP, and money growth will be tailored to keep inflation (after corrective price adjustment) at about 30 percent—although ensuring that credit is available to enterprises. To help improve the external account, the Government devalued the forint by 15 percent last January.

View of Budapest: Given the relatively low base, Hungary's growth potential is large.

The Government's medium-term objectives are to

- achieve an annual growth rate of at least 5 percent;
- reduce inflation to single digits by 1993;
- achieve convertibility for the forint for current transactions by 1993; and
- maintain Hungary's traditional access to capital markets by halting the growth of external indebtedness within three years.

The rewards of Hungary's medium-term reform program are clear, the authors conclude, adding that "Hungary's growth potential—from a relatively low base—is large."

Copies of *Economic Reform in Hungary Since 1968* (Occasional Paper No. 83) are available for US$10.00 each (US$7.50 for full-time university students and faculty) from Publication Services, Box S-325, International Monetary Fund, 700 19th St., N.W., Washington, D.C. 20431, U.S.A.

IMF SURVEY

August 12, 1991
Volume 20, Number 16

Gerald R. Rosen, *Editor*
Pamela J. Bradley, *Senior Editor*
Vikram R. Khanna, *Assistant Editor*
Sheila Meehan, *Assistant Editor*
Susan Scott, *Art Editor*
Philip Torsani, *Graphic Artist*

The *IMF Survey* (ISSN 0047-083X) is published by the International Monetary Fund 23 times a year, ordinarily on alternate Mondays, in addition to an annual *Supplement on the Fund*, an annual Index, and other occasional supplements. Editions are also published in French (*Bulletin*) and Spanish (*Boletín*).The opinions and materials contained in the *IMF Survey*, including any legal aspects, do not necessarily reflect the official views of the IMF. Editorial correspondence should be addressed to Current Publications Division, Room IS5-1500, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-8585. The *IMF Survey* is distributed by first-class mail in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged an annual rate of US$60.00. Apply for subscriptions to Publication Services, Box S-99, IMF, Washington, D.C., 20431, U.S.A. Telephone: (202) 623-7430. Cable: Interfund. Facsimile: (202) 623-7201.

IMF SURVEY

A PUBLICATION OF THE INTERNATIONAL MONETARY FUND

August 26, 1991

Asian Countries Have Gained from Financial Reforms, Says IMF Study

Liberalization and reform in a number of Asian countries have helped make financial systems more efficient and have enhanced the effectiveness and flexibility of monetary policies. In a recent study, entitled *Financial Liberalization, Money Demand, and Monetary Policy in Asian Countries*, IMF economists Wanda Tseng and Robert Corker review the major financial reforms undertaken by a number of these countries during the 1980s, investigate the impact on money demand, and examine the implications for monetary policy. The countries covered by the study, which is No. 84 in the IMF's Occasional Paper series, are Indonesia, Korea, Malaysia, Myanmar, Nepal, the Philippines, Singapore, Sri Lanka, and Thailand.

Background to Reforms

Despite their diversity, Asian countries' financial systems shared many common characteristics prior to liberalization, according to the *(Please turn to page 268)*

Traders at the Jakarta Stock Exchange: Indonesia was among the many Asian countries that witnessed financial liberalization in the 1980s.

CONTENTS

Volume 20, Number 17

SELECTED TOPICS

Financial Reform in Asia
Page 257

***Direction of Trade Statistics* Yearbook**
Page 266

Economic Survey of Germany
Page 271

NATIONAL ECONOMIES

Economic Growth in Malaysia
Page 258

IMF ACTIVITIES

New Department Heads
Page 262

From the Executive Board
Page 264

Currency Units per SDR
Page 265

NATIONAL ECONOMIES

Pursuit of Sound Economic Policies Restores Rapid Growth in Malaysia

The Malaysian economy has undergone a sharp turnaround. From a protracted recession and the threatened emergence of a debt problem in the mid-1980s, Malaysia has achieved sustained rapid growth with low inflation, a strong external position, and a sharp decline in external debt in recent years. Most of this success has been due to the pursuit of sound economic policies, while a favorable external environment—generating, in particular, an unprecedented level of direct investment flows—has also played an important role.

Background

During the 1970s, Malaysia's economy grew at an average annual rate of 8 percent. Inflation averaged 5 percent, and the balance of payments position remained comfortable. In the early 1980s, however, when the global economy underwent a recession, Malaysia sustained its high rates of growth through countercyclical spending initiated by the Government. As a result, severe fiscal and external imbalances emerged, with the public sector deficit reaching 17 percent of GNP and the current account deficit, 14 percent of GNP by 1982. The Government undertook heavy foreign borrowing to finance the deficits. At the same time, external competitiveness eroded as the exchange rate was allowed to appreciate and wages increases exceeded productivity gains.

The imbalances were trimmed sharply in 1983–84 as government spending was cut drastically, and both foreign exchange earnings and budget revenue were boosted by stronger external demand and better terms of trade. In 1985 and 1986, however, a drop in the prices of major export commodities triggered a marked economic downturn.

The recession was aggravated by a number of factors, including an erosion of business confidence exacerbated by regulatory constraints; a loss of external competitiveness owing to the previous real effective appreciation of the Malaysian ringgit; the low efficiency of many new investment projects, and the effect of a continuing fiscal retrenchment. As a result, output stagnated during 1985–86, unemployment soared, and investment dropped sharply. The recession lowered imports, thereby virtually eliminating the external current account deficit, but lower government revenues resulting from the erosion of commodity prices and incomes widened the fiscal deficit.

A battery factory in Malaysia: manufacturing output grew 18 percent in 1990, reflecting strong gains in export-oriented industries.

The Government's response was to promote private sector activity as the main engine of growth, with the public sector providing a supportive environment. This strategy, which was accompanied by cautious macroeconomic policies, included several major elements:

- The exchange rate was depreciated against its currency basket, which, together with restrained cost and price developments in Malaysia, led to a 34 percent real effective depreciation of the ringgit during 1985–88.
- The composition of the public in-

vestment program shifted away from sizable capital-intensive manufacturing projects, toward physical and human infrastructure.

• The expansion of public enterprises into new activities was halted, and the restructuring and privatization of such enterprises was promoted.

• To improve the environment for domestic and foreign private investment, the Government eased company taxation, liberalized investment guidelines—especially ownership criteria for foreign investors—relaxed licensing requirements, and streamlined approval procedures.

The Government also strengthened bank supervision, the capital base, and the management of financial institutions, against the background of the distress of a number of banks and finance companies in the aftermath of the recession. It took steps, moreover, to broaden and deepen the capital market so as to enhance the efficiency of capital mobilization for private investment.

Turnaround

In 1987, a sharp rise in exports led to an impressive recovery in Malaysia and to a marked turnaround in the country's external current account balance. Real GDP growth accelerated further in 1988, to almost 9 percent, as continued vigorous export growth was supported by a resurgence of private consumption and investment. The rate of inflation remained low, averaging 1.7 percent during 1987–88, and the fiscal performance improved significantly, with the overall public sector deficit moderating to less than 3 percent of GNP.

Growth remained strong in 1989, driven by a broadly based expansion of domestic demand and output. Unemployment, which had initially been slow to respond to the recovery, declined from over 8 percent during 1986–88 to about 7 percent of the labor force. Fiscal policy was less expansionary than had been forecast, with the public sector deficit amounting to about 4½ percent of GNP. However, monetary growth accelerated significantly, pressured by an unprecedented inflow of direct investment and portfolio capital from abroad.

Although strains on resources intensified, macroeconomic imbalances remained moderate. The rate of inflation accelerated only slightly, to 2.8 percent, as domestic supply-demand imbalances were mitigated by a surge in imports. As a consequence, the external current account balance shifted into a minor deficit. The overall balance of payments recorded a surplus, however, owing to the strong inflow of private capital.

Sustained Rapid Growth

The growth of real GDP in Malaysia rose to 10 percent in 1990—the highest growth rate registered since the mid-1970s. Manufacturing output grew 18 percent in 1990, reflecting strong gains in export-oriented industries (electrical and electronic products and wood and wood products) and industries producing mainly for the domestic market (transport equipment and metal products).

Activity in the construction sector, which began to respond to the recovery only in 1989, remained buoyant in 1990, benefiting from public infrastructure outlays and strong housing

Malaysia: Selected Economic Indicators

	1986	1987	1988	1989	(Est.) 1990	(Proj.) 1991
	(annual percent change)					
Production, prices, and employment						
Real GDP	1.2	5.4	8.9	8.8	10.0	8.3
Real GNP	2.5	5.6	9.5	9.6	10.9	7.2
Real domestic demand	–9.1	0.6	16.0	15.3	14.4	8.0
Total consumption	–7.3	1.9	13.2	12.6	10.7	7.3
Total investment	–13.5	–2.6	23.5	21.8	22.7	9.5
Net exports[1]	10.0	4.9	–4.4	–4.8	–3.5	0.5
GDP deflator	–8.6	5.5	4.8	2.7	3.0	3.4
Consumer prices (period average)	0.6	0.8	2.5	2.8	3.1	4.5
Producer prices	–6.2	3.7	7.4	4.0	0.6	...
Unemployment rate[2]	8.3	8.2	8.1	7.1	6.0	5.6
Federal government budget						
Revenue	–9.1	–6.9	16.2	13.3	18.2	10.1
Expenditure	10.8	–9.3	2.0	13.0	10.6	10.2
External sector						
Export volume	11.8	16.3	13.4	18.5	13.8	9.9
Import volume	–10.7	12.6	28.9	34.4	24.4	10.2
Terms of trade	–19.1	8.4	2.5	–1.0	–1.3	–1.6
	(billion U.S. dollars)					
Balance of payments						
Exports, f.o.b.	13.5	17.8	20.9	24.8	28.9	32.8
Imports, f.o.b.	–10.3	–11.9	–15.3	–20.9	–27.2	–31.4
Current account balance	–0.1	2.6	1.8	–0.2	–1.7	–2.9
Overall balance	1.1	1.5	–1.0	1.3	2.0	0.2

[1]Contribution to percent change in real GDP.
[2]Average, percent of labor force.

Data: Malaysian authorities; IMF staff estimates

demand. In contrast, output growth in agriculture, which was rapid during 1987–89, slowed markedly in 1990 owing to weak export prices for palm oil and rubber. Although petroleum production increased by 7 percent in 1990—largely in response to the outbreak of the Middle East crisis—output growth in the mining sector as a whole decelerated substantially, as the production of tin was cut back in response to a sharp price decline.

The official unemployment rate, which had remained at about 8 percent during the early phase of the recovery, fell to 6 percent in 1990. However, this figure may overstate unemployment because it includes persons of working age not actively seeking employment. Excluding this group, the unemployment rate is estimated to have been somewhat above 3 percent on the Malaysian peninsula.

Despite the strength of domestic demand, inflation, as measured by the consumer price index, has remained low (3.1 percent in 1990). Because the economy is so open, imports relieved much of the demand pressure. To help contain price increases, the Government implemented selective import tariff reductions during 1989–90 and, in the latter part of 1990, provided temporary subsidies to a number of petroleum products to cushion the impact of surging oil prices.

While the economic upswing was initially spurred by strong external demand, domestic demand has been the main driving force since 1988. Private consumption remained buoyant in 1990, growing by 12.6 percent in real terms. As a result, private savings, as a ratio to GNP, continued to decline, falling to 18.6 percent of GNP in 1990 from a peak of 28.2 percent of GNP in 1987. The remarkable strength of private investment was, however, sustained in 1990, with private fixed capital formation (at constant prices) increasing by 30 percent.

An increasing share of private investment—approximately 30 percent by 1990—has been financed by inflows of foreign equity capital. Such inflows surged from the equivalent of about 3 percent of GNP in 1986–87 to 7 percent of GNP in 1990. The bulk of foreign investment has been in export-oriented industries, mainly electric and electronic goods and chemical products, and in the petroleum sector. Japan, Taiwan Province of China, and Singapore have accounted for about two thirds of these inflows.

Malaysia's attractiveness can be attributed to its stable political and economic conditions; the liberalization of guidelines for foreign equity participation in 1986, reinforced by other deregulation measures and the provision of substantial fiscal incentives; the availability of relatively well-trained labor; and a competitive exchange rate.

Malaysia's strong GNP growth was accompanied by a sustained rapid import expansion, with the U.S. dollar value of imports increasing by 37 percent in 1989 and by 30 percent in 1990. Most of the import growth was accounted for by capital goods, although imports of intermediate and consumer goods also increased substantially. Exports have been buoyant in recent years, growing at an annual average rate of 18 percent, in U.S. dollar value terms, in 1988–90. However, the strong performance of exports and manufactures and the price-induced jump in petroleum exports in 1990 were partly offset by the falling prices and depressed volumes of primary commodity exports.

These trade developments—in conjunction with a continued large deficit on services account—resulted in a

Malaysian wood for export: an increasing share of private investment—in particular to export-oriented industries—has been financed by inflows of foreign equity capital.

swing in the current account from a surplus of 8.9 percent of GNP in 1987 to a deficit of 0.4 percent of GNP in 1989, and a widening of this deficit to 4.3 percent of GNP in 1990.

At the same time, inflows of foreign direct investment as well as of short-term capital (largely a repatriation of assets by financial institutions in response to narrowing interest differentials) resulted in the emergence of a surplus on capital account in 1989, which grew substantially in 1990.

Prepayments of external debt amounted to $1–2 billion a year during 1987–90. As a result, total public sector medium- and long-term debt declined from $18 billion (61 percent of GDP) in 1987 to $13.5 billion (33 percent of GDP) in 1990, and debt service fell from 17 percent of exports to 8 percent during the same period. Although gross official reserves grew sharply in dollar terms during 1989–90, they declined in relation to imports.

Conclusion

Malaysia's excellent economic performance during recent years is testimony to the soundness of the policies it has pursued. Malaysia's role as one of the main beneficiaries of the massive wave of foreign direct investment—originating mainly from the more advanced Asian economies engaged in industrial restructuring—is also a tribute to its successful economic management.

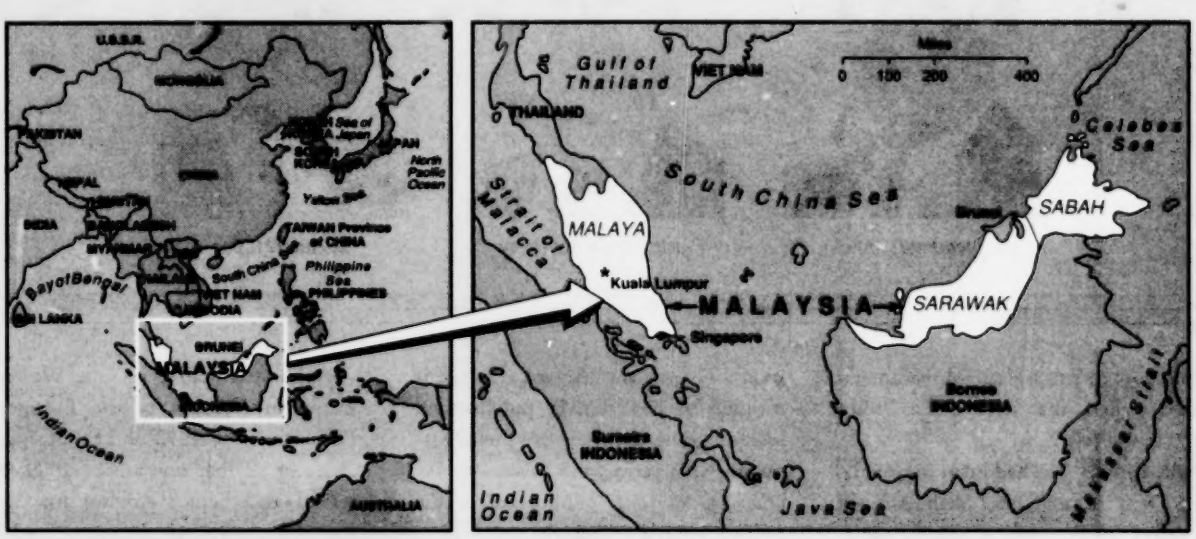
The substantial progress Malaysia has made in alleviating poverty and creating equal opportunities in its multiracial society has also been remarkable; these achievements have been facilitated by the country's rapid GDP growth. The task of maintaining the economic expansion at a sustainable pace remains the Government's principal challenge.

IMF, Asian Department

Malaysia: A Federation of Territories

The Federation of Malaysia in Southeast Asia comprises two regions—West Malaysia, on the Malay Peninsula, and East Malaysia, consisting of the territories of Sarawak and Sabah on the island of Borneo. It has a total land area of 127,316 square miles (329,747 square kilometers) and an estimated population of 17,053,000 in 1990. Its capital is Kuala Lumpur, in West Malaysia.

Malaysia occupies a focal position in southeast Asia, commanding one of the major sea lanes of the world, the Strait of Malacca. Malaysia is unique in that it has territory on the mainland and in insular regions of southeast Asia. Malaysia joined the IMF on March 7, 1958. Its quota is SDR 550.60 million and it has no Fund credit outstanding. Malaysia's currency is the ringgit, with an exchange rate in mid-August of ringgit 2.79 = US$1.



IMF ACTIVITIES

Managing Director Appoints Six New Department Heads

On July 26, the Managing Director of the IMF announced a number of senior appointments, naming new heads for the two newly formed Asian departments, the External Relations Department, the IMF Institute, the Research Department, and the Treasurer's Department. Effective in early September, the appointments are as shown below:

Shailendra J. Anjaria, a native of India, has been appointed Director of the IMF's External Relations Department, succeeding Azizali Mohammed, who headed the department from 1980 to 1990.

Mr. Anjaria, 45, had been the Assistant Director for the North African Division of the African Department since 1988. Educated at the University of Pennsylvania, Yale University, and the London School of Economics, Mr. Anjaria joined the Fund staff in 1968 as an Economist in the Exchange and Trade Relations Department, serving with four divisions there and spending nearly two years with the IMF's Office in Geneva.

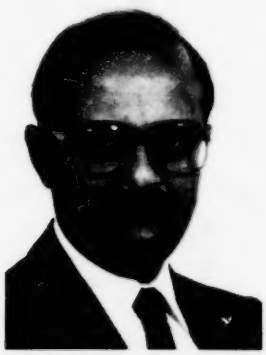
Appointed Division Chief in 1980, he later served as Assistant Director and Advisor in the Exchange and Trade Relations Department before being appointed an Assistant Director in the African Department in 1988.

In addition to his operational responsibilities, Mr. Anjaria has contributed to several IMF publications, including the *IMF Survey*, the Occasional Paper series, and *Finance & Development* (a joint publication of the IMF and the World Bank).

Patrick B. de Fontenay, a French national, has been named the IMF Institute's new Director. He succeeds Gérard M. Teyssier, who headed the institute from 1972 to 1990.

Mr. de Fontenay, 57, has 21 years of experience with the IMF and has been a Deputy Director with the European Department since 1984. Educated at the University of Paris and Yale University, he was an Assistant Instructor at the Institut d'études politiques and at Yale University, and also served as an Economist with the World Bank, before joining the IMF staff as an Economist in 1970.

Appointed Chief of the Western European Division of the European Department in 1973 and an Assistant Director of that division in 1979, he served as a Senior Advisor for over three years before being named a Deputy Director. Mr. de Fontenay's extensive operational experience and



Shailendra J. Anjaria

Patrick B. de Fontenay

Michael Mussa

language proficiency will be valuable in his new capacity as head of the IMF's multilingual training facility.

Michael Mussa, a U.S. national, has been appointed Economic Counsellor of the IMF and the Director of its Research Department. He succeeds Jacob A. Frenkel, who resigned to become the Governor of the central bank of Israel.

Mr. Mussa, 47, has had distinguished careers in academia and the public sector. Since 1980, he has been the William H. Abbott Professor of International Business at the University of Chicago's Graduate School of Business and, since 1981, he has been a Research Associate at the National Bureau of Economic Research. Mr. Mussa also served recently as a member of the U.S. Council of Economic Advisers.

Mr. Mussa is well known in the IMF and is, in turn, familiar with the institution, having been a Visiting Professor in the IMF's Asian Department and, recently, in the Research Department.

Hubert Neiss, from Austria, has been named the new Director of a recently created Asian regional department that will include Bangladesh, Bhutan, Cambodia, China, India, Japan, Korea, the Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Sri Lanka, and Viet Nam.

Educated at Hochschule für Welthandel and the University of Kansas, Mr. Neiss, 56, brings to his new position over 24 years of experience in the IMF and 6 earlier years of experience with the Austrian Institute of Economic Research.

He began his career in the IMF in 1967 as an Economist with the European Department and has served for the past 18 years in the IMF's Asian Department. Mr. Neiss was appointed Chief of the South Pacific Division in 1973, and also served as a Resident Representative of the IMF in Indonesia. Since 1980, he has been a Deputy Director with the Asian Department. Mr. Neiss has had extensive operational experience with major adjustment programs.

Kunio Saito, from Japan, has been appointed Director of the second newly created Asian regional department, which will include the countries of Australia, Fiji, Indonesia, Kiribati, Malaysia, Mongolia, New Zealand, Papua New Guinea, Philippines, Singapore, Solomon Islands, Thailand, Tonga, Vanuatu, and Western Samoa. Mr. Saito and Mr. Neiss succeed P.R. Narvekar, who was head of the original Asian Department from 1986 to 1991.

Educated at the Hitotsubashi University and the University of Edinburgh, Mr. Saito, 51, served with Japan's Ministry of Finance from 1964 to 1968 before joining the IMF's staff as an Economist in 1969. His experience in the Fund spans 22 years, primarily with the Asian Department. In 1975, he was appointed a Senior Economist with the Asian Department. He also served for one year with the Exchange and Trade Relations Department. In 1979, Mr. Saito

Hubert Neiss

Kunio Saito

David Williams

became an Advisor in the Asian Department; in 1981, he was appointed Division Chief and, in 1982, an Assistant Director.

Mr. Saito spent two years on external assignment with the Asian Development Bank as the Chief of its Policy Development Office. When he returned to the IMF in 1989, he was appointed Deputy Director of the Asian Department.

David Williams, a native of the United Kingdom, has been named Treasurer of the IMF. He succeeds Gerhard Laske.,

Mr. Williams, 57, assumes his new position after 28 years of experience in the IMF, 23 of those years with the Treasurer's Department.

Educated at the London School of Economics, Mr. Williams was a Member of the Basle Centre for Economic and Financial Research, an Assistant Lecturer at the University of Leeds, and a Lecturer at the University of Hull before he joined the IMF's staff in 1963 as an Economist with the European Department. He subsequently served as an Economist and a Senior Economist in the Research Department before joining the Treasurer's Department in 1968.

Appointed a Division Chief in Treasurer's in 1969, he held several senior-level positions in the department, including Assistant Treasurer and Senior Advisor, before being appointed Deputy Treasurer in 1978.

From the Executive Board . . .

Papua New Guinea: Stand-By Arrangement. The IMF has approved a stand-by credit for Papua New Guinea, authoriz-ing drawings up to the equivalent of SDR 26.36 million (about US$35 million) over the next 14 months in support of the Government's 1991–92 economic and financial program.

In response to the severe shocks stemming from the closure of the Bougainville copper and gold mine and the sharp fall in world prices for major agricultural exports, the Government adopted an economic program in 1990. This program—encompassing stabilization and wide-ranging structural measures—was supported by a stand-by arrangement with the IMF (under which no drawings were made) and a drawing under the compensatory and contingency financing facility (CCFF). Although substantial progress was made during 1990 in dampening domestic inflation and strengthening the external position, economic activity declined and the overall budget deficit was equivalent to nearly 3 percent of GDP against a target of approximate balance.

During the first quarter of 1991 the fiscal position deteriorated because of a substantial shortfall in revenue and grants and new expenditure commitments to improve law and order. At the same time, world prices for agricultural exports remained depressed and the level of external reserves declined.

The main objectives of the Government's economic program for 1991-92, which the current stand-by credit supports, are to strengthen the external reserve position, hold down inflation, and sustain an economic recovery, particularly in the nonmining private sector.

To achieve these goals, the authorities aim to reduce the overall budget deficit to 2.5 percent of GDP in 1991 and to 1.5 percent in 1992 by curtailing nonpriority expenditures and introducing additional revenue measures. Monetary and credit policies will be consistent with the inflation and balance of payments objectives, while wage increases will be restrained through the Government's consultations with the Minimum Wages Board and the National Tripartite Council. Structural policies under the program will focus on improving the operations of the public sector, particularly through civil service reform, reforms of the agricultural commodity stabilization funds, and privatization. The program also includes measures to address the adverse impact of the adjustment effort on the most vulnerable segments of the population through settlement and retraining programs, and projects to improve housing, health, small industrial development, roads, and water supplies; and to continue with actions that would contain environmental degradation.

Papua New Guinea joined the IMF on October 9, 1975. Its quota is SDR 65.9 million (about US$88 million), [A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] and its outstanding financial obligations to the IMF resulting from past operations and transactions currently total the equivalent of SDR 42.8 million (about US$57 million).

Press Release No. 91/38, July 31

Interim Committee: New Chairman. The members of the IMF's Interim Committee have selected Carlos Solchaga Catalan, Minister of Economy and Finance of Spain, as Chairrman of the Committee. Mr. Solchaga succeeds Michael H. Wilson of Canada, who resigned in April 1991.

Mr. Solchaga has been Spain's Minister of Economy and Finance since July 1985. Prior to this, he held the Industry and Energy portfolio from December 1982, and previously held positions with the Bank of Spain, the private sector, academia, and as a member of Congress. Born in 1944, he is married and has two children.

The Interim Committee's formal name is the Interim Committee of the Board of Governors of the International Monetary Fund on the International Monetary System. It was established in October 1974 to advise the IMF's Board of Governors on supervising the management and adaptation of the international monetary system as well as dealing with sudden disturbances that might threaten the stability of the system. In fact, the Committee deliberates on the principal policy issues facing the institution.

The Committee has, at present, 22 members who are Governors of the IMF, Ministers, or others of comparable rank, and reflects the composition of the IMF Executive Board: each member country that appoints, and each group of countries that elects, an Executive Director, appoints a member of the Committee. The Committee usually meets twice a year: in the Spring, and ahead of the Annual Meetings in the Fall. It last met in Washington, D.C. on April 30, 1991, and the next meeting is scheduled for Bangkok, Thailand on October 13, 1991.

Press Release No. 91/39, August 1

Kenya: ESAF Arrangement. The IMF has approved a loan equivalent to SDR 80.5 million (about US$107 million) for Kenya in support of its third annual economic program under the IMF's enhanced structural adjustment facility (ESAF) covering the period July 1991–June 1992. [The ESAF is an IMF concessional lending facility for assisting its low-income members that implement strong structural economic programs to improve substantially their balance of payments and improve their growth prospects. Under ESAF, loans carry an intrest rate of 0.5 percent, and are repayable over 10 years with a 5½-year grace period.] The loan is available in two semiannual installments, with the first disbursement equivalent to SDR 35.2 million (about US$47 million) available immediately. The three-year ESAF loan, totaling SDR 241.4 million (about US$322 million), was approved in May 1989 and is being augmented by SDR 20 million (about US$27 million) at the request of the Government of Kenya. Kenya has drawn SDR 180.9 million (about US$241 million) under the loan to date. During the first two years of th ESAF-supported economic program, Kenya demonstrated its commitment to macroeconomic adjustment and structural reform. Significant progress was made in implementing structural reform, notably in import liberalization, export promotion, decontrol of domestic prices, and monetary and financial sector reform. However, macroeconomic adjustment has been weaker, particularly in public sector finances whose deterioration has contributed to a larger external current account deficit, a weaker foreign reserve position, and higher inflation than envisaged in the program.

Kenya's economic program for 1991–92 seeks a rebound in growth, a deceleration of inflation, a reduction in the external current account deficit, and a build-up of foreign reserves. Critical to these ends is a significant reduction of the budget deficit, to be achieved through revenue and expenditure measures. Revenue measures include the strengthening of the value-added tax and a reduction in import duty exemptions, while expenditure cutbacks will affect recurrent outlays on defense, secu-

Currency Units per SDR

	JULY		AUGUST							
Currency	30	31	1	2	5	6	7	8	9	12
Deutsche mark	2.32856	2.3289	2.33105	2.34423	2.32191	2.30216	2.30855	2.30103	2.31063	2.31607
French franc	7.91931	7.92129	7.92545	7.97301	7.90425	7.83864	7.85484	7.83469	7.86299	7.87945
Japanese yen	184.072	183.825	182.987	182.593	183.692	184.254	182.757	182.949	183.098	182.866
Pound sterling	0.791893	0.791926	0.792107	0.797328	0.789875	0.785012	0.787466	0.786235	0.789389	0.790828
U.S. dollar	1.33434	1.334	1.3347	1.32795	1.33789	1.34708	1.34578	1.34918	1.34433	1.34164
Argentine austral	3276.7	3280.	3226.9	3189.2	3258.5	3342.8	3330.	3363.6	3315.6	
Australian dollar	1.71686	1.71578	1.71291	1.70688	1.71723	1.72095	1.71853	1.72199	1.71536	1.71193
Austrian schilling	16.379	16.4029	16.4101	16.5064	16.3423	16.2121	16.2301	16.1942	16.2624	16.3023
Bahrain dinar	0.501712	0.501584	0.501847	0.499309	0.503047	0.506502	0.506013	0.507292	0.505466	0.504457
Bangladesh taka	48.6901	48.6777	48.7032	48.4569	48.8196	49.1549	49.1075	49.2316	49.0546	48.9564
Belgian franc	47.9528	47.9873	47.9991	48.2643	47.8363	47.4374	47.5195	47.4102	47.6162	47.7322
Brazilian cruzeiro	456.798	...	462.086	...	469.225	475.411	477.146	481.104	482.117	483.836
Canadian dollar	1.53649	1.5[illegible]37	1.53504	1.52807	...	1.54726	1.54388	1.54697	1.54141	1.53846
Colombian peso	852.376	852.5[illegible]	854.115	850.804	858.109	864.448	...	866.538	864.028	863.158
Danish krone	9.01013	9.02118	9.02658	9.0865	9.00534	8.93451	8.93598	8.91268	8.94988	8.96886
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	5.60423	5.60814	5.60707	5.64113	5.59508	5.56344	...	5.55727	5.6072	5.62415
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	34.3523	34.3538	34.3616	34.5881	34.399	34.3443	34.491	34.5157	34.6542	34.7174
Indonesian rupiah	2613.97	2613.31	2614.68	2602.78	2620.93	2638.93	2635.04	2641.69	2633.54	2626.93
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.414789	0.414684	0.414901	0.412803	0.415893	0.41875	0.418346	0.419402	0.417895	0.417059
Irish pound	0.871263	0.871554	0.872638	0.87685	...	0.862628	0.86351	0.863973	0.864743	0.867141
Italian lira	1741.01	1739.8	1740.75	1752.83	1737.09	1725.2	1728.31	1724.78	1731.34	1735.2
Kuwaiti dinar	0.389147	0.389421	0.388892	...	0.389487	0.390963	0.390586	0.390844	...	0.389948
Libyan dinar	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929
Malaysian ringgit	3.71881	3.71853	3.71781	3.70232	...	3.7368	3.72908	3.72603	3.72111	3.72064
Maltese lira	...	...	...	...	...	...	...	...	...	...
Mexican peso	...	...	...	...	...	...	...	...	...	...
Nepalese rupee	56.9763	56.5616	56.7248	56.4379	57.2617	57.1182	56.6573	57.0703	56.5963	57.0197
Netherlands guilder	2.62585	2.62651	2.62976	2.64222	2.61745	2.59919	2.60112	2.6023	2.6045	2.61231
Norwegian krone	9.08362	9.09921	9.09998	9.14692	9.07424	8.98715	9.01673	8.99701	9.02652	9.06278
Omani rial	0.513054	0.512923	0.513192	0.510597	0.514419	0.517862	0.517452	0.51876	0.516895	0.515861
Pakistan rupee	32.9738	32.9654	32.9157	32.7492	32.9944	33.221	33.189	33.2728	33.1532	33.0869
Portuguese escudo	199.817	199.985	200.005	200.999	199.156	197.537	198.114	198.17	199.219	199.502
Qatar riyal	4.857	4.85576	4.85831	4.83374	4.86992	4.90337	4.89864	4.91102	4.89336	4.88357
Saudi Arabian riyal	4.9971	4.99583	4.99845	4.97317	5.0104	5.04481	5.03995	5.05268	5.03452	5.02444
Singapore dollar	2.33216	2.3297	2.32425	2.31369	2.32231	2.32412	2.32187	2.32059		2.31165
South African rand	3.82354	3.82323	3.82655	3.80785	3.83042	3.86271	3.84015	3.84043	3.83875	3.83578
Spanish peseta	145.891	145.941	146.863	146.721	145.409	144.398	144.285	144.582	144.723	145.242
Sri Lanka rupee	...	55.361	55.3901	56.1099	55.4957	55.8489	55.823	55.964	55.8031	55.7451
Swedish krona	8.44103	8.44822	8.46132	8.49688	8.43138	8.36489	8.37479	8.36627	8.40005	8.42215
Swiss franc	2.0326	2.03262	...	2.04265	2.02155	2.00917	2.01732	2.01473	2.02429	2.02722
Trinidad and Tobago dollar	5.68512	5.68367	5.68666	5.6579	5.70025	5.7394	5.73388	5.74835	5.72769	5.71822
U.A.E. dirham	4.89636	4.89711	4.89968	4.8749	4.91139	4.94513	4.94036	4.95284	4.93504	4.92516
Venezuelan bolivar	79.7268	79.6398	79.4814	79.013	80.0727	80.3533	80.1277	80.2627	79.9204	79.6934

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

rity, and public administration, as well as certain development expenditures. Monetary policy is predicated on no bank financing for the Government, allowing for adequate credit expansion to the private sector. The combination of an adequately competitive exchange rate, continued trade reform, and policies to significantly reduce inflation are envisaged to provide incentives for the continued rapid development of exports. The program also emphasizes structural elements, such as policies to begin the restructuring of the state corporation sector, commencement of open market operations, a tight limit on foreign nonconcessional borrowing, the continuation of trade and financial liberalization, and price decontrol.

A number of elements of the program have been designed to minimize the adverse effects of measures on the most vulnerable groups. The cutback in the number of lower level civil service posts has been structured such that the vacancies emerge from normal attrition rather than the termination of employment. A "hardship fund" will be established to provide scholarships or loans to economically disadvantaged students to cover the new direct charges for university education. In coordination with the World Bank and bilateral donors, a "safety net" will be developed to finance some of the costs of retrenchment and retraining arising from the restructuring of the state corporation sector. The reinstatement of user charges for medical care will be accompanied by a strengthening of the system of waivers for the poor.

Concerning the environment, during 1991 the Government intends to begin preparing a comprehensive National Environmental Action Program. The immediate priorities are forestry, arid and semiarid lands, and wildlife sector, as well as the beginning of an incorporation of environmental concerns in the public investment program.

Kenya joined the IMF on February 3, 1964 and its quota is SDR 142 million (about US$189 million). [A member's quota in the IMF determines in particular its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Its outstanding financial obligations to the IMF resulting from past operations and transactions currently total SDR 323.7 million (about US$432 million).

Press Release No. 91/40, August 2

SELECTED TOPICS

World Trade Continued to Expand in 1990, According to *DOTS* Yearbook

The value of world trade rose by about 14.6 percent in U.S. dollar terms in 1990, compared with about 8.1 percent in 1989 and 14.5 percent in 1988, according to data in the 1991 edition of the IMF's *Direction of Trade Statistics* (*DOTS*) Yearbook. Trade volume growth slowed, however, to about 3.9 percent in 1990 from 7.1 percent the previous year, because of a slowdown in world economic activity, the disruption in trade among Central and Eastern European countries, and the rise in oil prices.

Industrial Countries

In 1990, industrial country trade grew at about the same pace as world trade. Industrial countries' exports rose by 15.3 percent (or $324.9 billion), and their imports by 14.8 percent (or $331.8 billion). Boosted by a lower dollar and strong demand from reunified Germany, the value of Western European countries' trade rose by more than 20 percent. Among the industrial countries, Austria recorded the highest export growth (28 percent), largely because its deliveries to Germany surged; Germany's total imports were up 29 percent. In 1990, Germany overtook the United States as the world's leading exporter.

The trade imbalances among Japan, Germany, and the United States narrowed further in 1990. The U.S. trade

World Trade Flows
(billion U.S. dollars)

	With Industrial Countries		With Developing Countries		With U.S.S.R. and Selected Other Countries n.i.e.[1]		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Industrial countries								
1984	871.9	903.2	313.1	388.5	26.7	29.7	1,224.5	1,326.3
1985	921.7	965.5	307.6	380.9	26.0	26.8	1,268.4	1,378.3
1986	1,110.7	1,155.6	325.5	364.1	26.4	24.2	1,475.7	1,550.2
1987	1,323.5	1,358.7	369.5	435.0	26.8	27.0	1,733.8	1,828.7
1988	1,503.3	1,542.6	432.1	487.0	31.5	28.0	1,984.1	2,070.3
1989	1,611.7	1,651.6	463.4	544.2	35.1	30.0	2,127.5	2,238.9
1990	1,867.1	1,906.9	527.6	614.8	37.2	35.3	2,452.4	2,570.7
Developing countries								
1984	345.9	321.5	169.5	172.4	26.3	24.3	565.7	529.8
1985	330.2	312.7	162.8	162.8	28.9	24.9	542.7	511.9
1986	314.5	323.2	150.9	153.5	27.8	27.2	513.8	514.6
1987	381.2	365.5	186.3	185.7	28.3	27.6	619.7	592.2
1988	428.9	437.6	226.9	222.6	30.7	29.0	709.3	703.5
1989	478.0	469.5	251.2	250.0	32.2	28.4	785.3	763.3
1990	550.3	552.0	283.9	289.0	28.1	23.8	887.3	890.0

[1] Albania, Bulgaria, Cuba, Czechoslovakia, former German Democratic Republic, Democratic People's Republic of Korea, and Mongolia.

Data: IMF, *Direction of Trade Statistics Yearbook*, 1991

deficit declined by $5.6 billion to $123.9 billion; Germany's trade surplus was down by $9 billion, to $62.8 billion; and that of Japan narrowed by $12.6 billion, to $52.4 billion.

Developing Countries

Developing countries' exports increased by 13.0 percent or $102.0 billion in 1990, while their imports rose by 15.3 percent or $116.7 billion. As a result, their aggregate trade surplus declined last year to $7.3 billion, from $22.0 billion in 1989. This reflected the mixed effects of the rise in oil prices, continued declines in non-fuel commodity prices, and slower demand from industrial countries.

Among regions of the developing world, the Middle East recorded the fastest export growth in 1990 (23.9 percent), mainly because of higher oil prices. Middle Eastern countries' imports increased by 16.9 percent. Their aggregate trade surplus increased by $10.5 billion to $30.5 billion in 1990—the highest level since 1981.

Although oil exporters' trade expanded briskly in 1990, Iraq, Jordan, and Kuwait experienced significant declines in trade because of developments in the region following Iraq's invasion of Kuwait.

The aggregate trade deficit of European developing countries widened by $15.2 billion in 1990 to $18.8 billion. These countries' exports declined by 5.8 percent last year (following a 1.9 percent decline in 1989) while their imports rose by 13.5 percent. Their pattern of trade changed markedly. Notably, while their imports from developing countries increased by only 2.2 percent, those from industrial countries soared by 38.5 percent. In addition, European developing countries' trade with the countries included in the group "U.S.S.R. and selected other countries" (which do not report data directly to the IMF and exclude the former German Democratic Republic) declined by 23.5 percent.

African countries' exports increased by 16.3 percent in 1990—mainly driven by the oil exporting countries—while their imports were up 12.9 percent. As a result, Africa recorded a trade surplus of $3.5 billion in 1990, compared with balanced trade in 1989.

The 14.5 percent increase in the exports of Western Hemisphere countries was also mainly driven by higher oil exports. The region's imports rose by 20.3 percent in 1990, and its trade surplus contracted by $3.7 billion, to $11.2 billion.

In the Asian developing countries, the growth of exports in 1990 (12.3 percent) was outpaced by that of imports (14.3 percent)—a trend that held true for the region's leading trading nations. Asia's aggregate trade deficit continued to deteriorate, reaching $19.2 billion at the end of 1990.

U.S.S.R. and Other Countries

This group's trade with the world declined by 17.1 percent in 1990. Its exports were down 2.7 percent, while its imports fell by 6.0 percent. These declines reflected the disruption in the trade flows among centrally planned economies and economies in transition. The largest economy in the group—the U.S.S.R.—recorded declines of 4.2 percent in imports and 1.2 percent in exports. Its exports would have declined even more except for the increase in oil prices.

DOTS Yearbook Provides Data for 161 Countries

The *Direction of Trade Statistics* (*DOTS*) Yearbook presents annual data on merchandise trade by partner countries for exports (f.o.b.) and imports (c.i.f.) of 161 individual countries during 1984–90; it also presents world tables showing trade flows between major areas of the world.

Most of the data published in the Yearbook are reported by Fund members and associated territories, and by Switzerland. As of the end of April 1991 (the cut-off date for the Yearbook), countries representing 82 percent of world exports and 84 percent of world imports had reported data covering the full year 1990. In addition, estimates are presented for countries for which data are outdated or unavailable.

DOTS Yearbook data are expressed in U.S. dollars to facilitate intercountry comparison and the calculation of world and area aggregates. Variations in the exchange values of the U.S. dollar over the period covered by the Yearbook should be taken into account in interpreting changes in value data.

Copies of the 1991 *Direction of Trade Statistics* Yearbook are available for US$25.00 each. The subscription rate for 12 monthly issues of *DOTS*, which includes the Yearbook, is US$86.00 (US$43.00 for full-time university faculty and students). Please write to Publication Services, Box S-327, International Monetary Fund, 700 19th St. N.W., Washington, D.C. 20431, U.S.A.

Asian Reforms Relied More on Market Forces

(continued from front page) authors. These included interest rate restrictions, domestic credit controls, high reserve requirements, segmented financial markets, underdeveloped money and capital markets, and controls on international capital flows. The move toward financial liberalization partly reflected the change in the philosophy underlying economic policies that occurred in the 1980s. Excessive controls were increasingly viewed as incompatible with efficient resource allocation and rapid economic growth; such controls discouraged financial savings, distorted investment decisions, and failed to intermediate effectively between savers and investors. Financial reforms were also prompted by the need for more flexible and effective policy responses to the severe external shocks that Asian countries experienced during the 1970s and 1980s.

The pace and scope of financial liberalization in Asia during the 1980s varied widely among countries, the authors point out. While Singapore already had a relatively well-developed, globally integrated financial sector at the start of the decade, other countries had more restrictive financial systems and, therefore, greater scope for reforms. "Overall," they suggest, "financial liberalization in the Asian countries has been a gradual, phased, and continuing process rather than being concentrated in discrete episodes of comprehensive liberalizations."

Review of Reforms

The authors point out that the broad objectives of Asian countries' financial reforms were to enhance efficiency by greater reliance on market forces and more effective monetary policy. The key reforms aimed at liberalizing interest rates, reducing credit controls, enhancing competition and efficiency in the financial system, strengthening the supervisory framework, and promoting the growth and deepening of financial markets. To achieve this:

- Nearly all Asian countries (except, notably, Myanmar) liberalized interest rates. Coupled with the substantial reduction of inflation, such liberalization generally resulted in positive real interest rates, which, in turn, helped the financial system to attract and mobilize savings. Financial depth, as measured by the ratio of M2 (which comprises currency in circulation plus some interest-bearing deposits) to GDP, rose in most of the countries during the 1980s, particularly in Malaysia, Singapore, and Thailand.
- Indonesia, Korea, Malaysia, Nepal, the Philippines, Sri Lanka, and Thailand reduced or eliminated economywide direct credit controls. However, a few countries reintroduced such controls to address particularly severe monetary disturbances and/or adverse macroeconomic developments. Indonesia, Korea, and the Philippines also largely discontinued sectoral credit allocation, but Malaysia, Myanmar, Nepal, Sri Lanka, and Thailand did not.
- Most countries (Indonesia, Korea, Malaysia, Nepal, the Philippines, Sri Lanka, and Thailand) reduced obstacles to competition and market segmentation by permitting greater freedom of entry, expanding the scope of permissible business activities for different types of financial institutions, relaxing restrictions on the activities of foreign banks, and allowing domestic banks more managerial autonomy. Financial deregulation was accompanied by measures to strengthen the supervisory framework.
- Most of these Asian countries encouraged the creation and development of money and capital markets, partly by developing new financial instruments (such as central bank and government securities, certificates of deposit, and various commercial papers), on which interest rates were typically subjected to fewer restrictions than those on more traditional instruments. Nonbank financial institutions—some providing longer-term loans—also grew in importance, as did stock markets.
- Most of the Asian countries relaxed international capital controls and moved toward more flexible exchange rate arrangements.

Implications for Money Demand

What were the implications of financial liberalization for money demand in Asian countries? Before investigating this issue empirically, the authors point out that, in principle, financial liberalization could lead to shifts (either onetime or gradual) in the level of money holdings as well as to changes in the income and interest elasticity of money demand. Financial liberalization may also make the relationship between money and interest rates more transparent.

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
August 19	7.49
August 26	7.50

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF, Treasurer's Department

The authors' empirical examination of money demand in Asian countries during the 1970s and 1980s presents a mixed picture. For most countries, at least one monetary aggregate appears to have been related in a stable, long-run fashion to income and interest rates. However, short-run deviations from long-run equilibrium were rather unpredictable. "In general," the authors point out, "it is difficult to link any instability to specific financial reform measures, partly because reforms were introduced gradually and on many fronts in most countries."

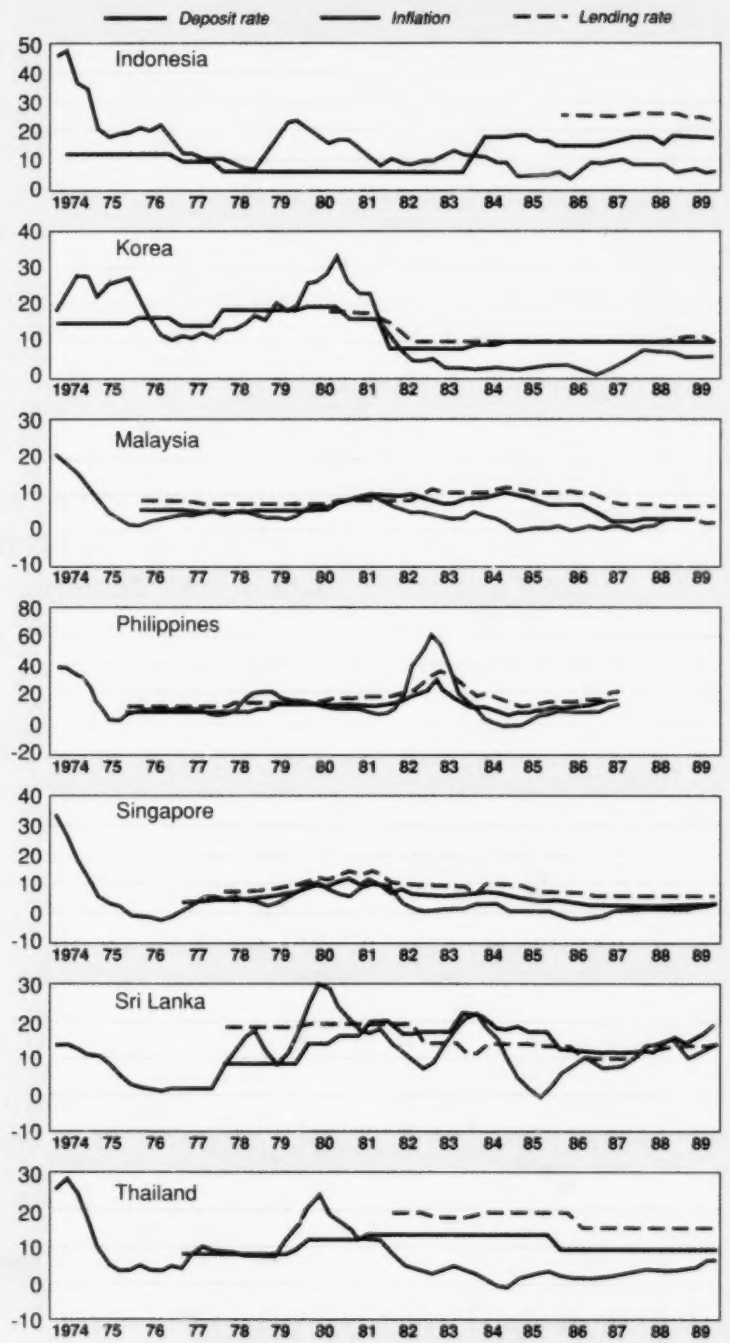
The authors emphasize two other findings. First, interest rates are becoming more important as determinants of both broad and narrow money demand in Asian countries—although this partly reflects the greater flexibility of interest rates in the 1980s, which enables their effects to be more easily measured than previously. Second, broad money demand is not as sensitive to simple interest rate variables as before. Such demand now also depends on the relative return between money and other financial assets.

In sum, the authors suggest that while monetary aggregates remain useful, "their usefulness remains subject to qualification." Notably, financial liberalization has "clouded the predictability of monetary developments, at least in the short run." The nature of broad aggregates also appears to have changed significantly.

Monetary Policy

In discussing the implications of financial reforms for the implementation of monetary policy, the authors focus on how such reforms have affected both the channels through which monetary policy works and the targets and instruments of monetary policy. They also review the impact of two major changes in monetary policy during the

Real Interest Rates Turned Positive in the 1980s



Data: IMF, *Financial Liberalization, Money Demand, and Monetary Policy in Asian Countries*

1980s: the liberalization of interest rates and the greater reliance on indirect monetary instruments, particularly open market operations.

Transmission Channels. As direct controls on financial markets have been reduced in Asian countries, interest rates have begun to play a greater role in transmitting the effects of monetary policy. In addition, the relaxation of controls on international capital flows and the move toward more flexible exchange arrangements have increased the importance of the exchange rate as a channel for transmitting the effects of monetary policy. However, exchange rate flexibility has also placed some constraints on monetary policy. Notably, monetary conditions abroad have become important to domestic monetary authorities, especially in small countries. And there is now a greater need to coordinate monetary policy with exchange rate policy.

Monetary Targets and Instruments. Financial liberalization has affected both the setting of policy targets and the choice of instruments, according to the authors. In the area of targeting, with the greater flexibility of interest rates and the liberalization of financial markets, monetary authorities have had to decide whether to target mainly prices, such as interest rates, or quantities, such as monetary or credit aggregates. The choice of targets has been further complicated by financial innovations and institutional changes.

In general, these countries have relied more on interest rate and money supply targets than on credit targets. Indonesia, for example, adopted interest rate targets following its financial reforms of 1983, although in mid-1987 its policy shifted to protecting international reserves; Korea, the Philippines, and Sri Lanka have targeted monetary aggregates; and Malaysia and Thailand have monitored both monetary targets and other economic variables. Only Myanmar, Nepal, and Sri Lanka continue to focus on credit aggregates. Singapore, which allows a high degree of capital mobility, relies primarily on the exchange rate for domestic stabilization.

Discussing the impact of interest rate liberalization, the authors point out that Asian countries did not share the experiences of several Latin American countries. The latter—notably Argentina, Chile, and Uruguay—deregulated interest rates in a period of severe macroeconomic instability. Real interest rose to very high levels, which not only discouraged investment and slowed growth but also led to widespread insolvencies and financial crises, thus exacerbating macroeconomic instability. By contrast, in Asia, only Indonesia and the Philippines faced unusually high real interest rates in the 1980s.

Asia's financial systems "are now better placed to meet the challenges of the new decade"

Turning to monetary policy instruments, the authors point out that, in the 1980s, Asian countries relied more on indirect, market-based instruments and less on direct controls. This shift complemented financial reforms because it enlarged the scope of monetary policy instruments while facilitating the dismantling of financial regulations and controls.

Among indirect monetary instruments, countries have placed most emphasis on open market operations. The authors note that nearly all the countries they studied (Indonesia, Korea, Malaysia, Nepal, the Philippines, Sri Lanka, and Thailand) have introduced such operations or intensified the use of them.

The shift toward open market operations was accompanied by changes in other instruments of monetary policy. Notably, the reliance on reserve requirements was reduced, and systems of selective rediscounting (which involve providing subsidized credit to priority sectors) were replaced by generalized rediscounting.

With regard to open market operations, the authors point out that their effectiveness in some Asian countries was constrained by the absence of government debt instruments, the thinness of private capital markets, and governments' own large financing needs. However, with improvements in markets and instruments and progress in reducing fiscal deficits, open market operations have become the primary instrument of monetary policy in many Asian countries.

The authors conclude that although it is difficult to distinguish the effects of financial liberalization and monetary policy from the many influences that affected Asian countries' economic performance during the 1980s, "the overall experience was positive." Financial markets are now much deeper, interest rates are more flexible, and the means to implement effective, indirect monetary policy are evolving. "As a result, the financial systems of the Asian countries are now better placed to meet the challenges of the new decade."

Copies of *Financial Liberalization, Money Demand, and Monetary Policy in Asian Countries* are available for US$10.00 each (US$7.50 for full-time university students and faculty) from Publication Services, Box S-326, International Monetary Fund, Washington, D.C. 20431, U.S.A.

Germany's Support for Integration Is Impressive, Says OECD

The new, unified German Government has mobilized an impressively large volume of financial and human resources to assist integration of the two economies in a remarkably short period of time, according to the Organization for Economic Cooperation and Development (OECD). In its first economic survey since the accession of east Germany to the Federal Republic of Germany, the Paris-based organization nevertheless estimates that output growth will probably slow to 2.5 percent on average in 1991 and 1992, largely because of continued production declines in the eastern part of Germany.

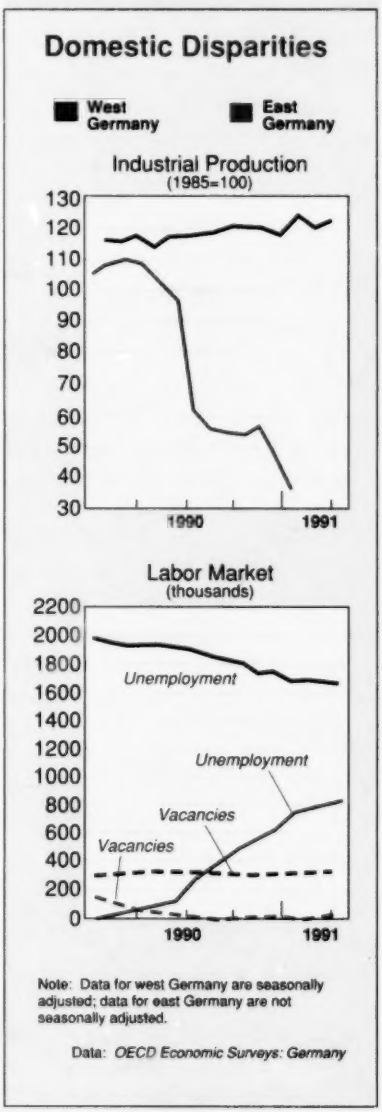
The report's tone is cautiously optimistic. While lauding the authorities for tackling a monumental challenge, the OECD urges the Government to undertake appropriate policy actions to ensure that domestic and international confidence in the macroeconomic stability of a unified Germany is maintained. It can best do this by "following a firm and steady course of budget consolidation." Other policy challenges facing the Government are "to make the best use of available financial resources by enhancing credibility and efficiency of existing programs; to allow time for these measures to work; and to maintain and strengthen, in the face of severe short-run pressures, the market-oriented thrust of the economic unification strategy."

OECD officials point out that until now the two parts of Germany have responded quite differently to economic unification. The economies of the old federal states have exhibited a remarkably high degree of resilience and strength, combining faster growth with low inflation. In contrast, the five new eastern states continue to experience severe adjustment pressures, as reflected in heavy losses in output and employment. According to the report, the major causes for the disparity are the collapse of east Germany's trade with the U.S.S.R., combined with its "sudden, full exposure to western German and international competition." In addition, the adoption of a hard currency (the west German mark) in mid-1990 at a "favorable" conversion rate unintentionally led to the opening and subsequent widening of a "huge gap" between production costs in eastern Germany and international prices. As a result, large parts of east Germany's tradable goods sector became uncompetitive and/or unprofitable almost overnight.

Fully integrating the former German Democratic Republic into the new German economy constitutes a formidable undertaking. The OECD estimates that the cost of raising east Germany's neglected infrastructure to west German standards could result in aggregate expenditures of DM 2.4 trillion—a sum roughly equivalent to the annual GNP of the former Federal Republic.

A strikingly different picture emerges of west German economic performance over this same period. Rapid unification with the east has, to be sure, triggered massive financial transfers from west to east German households, firms, and public authorities. Far from depressing economic activity in the former Federal Republic, however, the bulk of these transfers have been used by east Germans to purchase west Ger-

Photo Credits: Asian Development Bank, page 257; Embassy of Malaysia, pages 258 and 259; Denio Zara and Padraic Hughes–Reid, IMF, pages 262 and 263; AP/Wide World, page 272.



man goods, leading to an accompanying boost in demand for west German products. "Indeed," comments the OECD document, "such spillover effects may have added as much as 1.5 percent to output growth in 1990—which attained no less than 4.5 percent." Because most of this external demand was for tradable goods, for which foreign markets were sluggish, excessive pressure on resources in west Germany was avoided. Despite the push from higher energy prices in late 1990, inflation remained moderate during the course of the year.

Looking ahead, the OECD raises two fundamental questions: what additional or different steps need to be taken to support the catching-up process in eastern Germany, and how can the required support be made compatible with maintaining sound financial conditions and sustained economic growth in western Germany? In response to the first question, the OECD recommends a speedier transfer of state property to the private sector. Progress on this front has been modest so far. While the selling off of small enterprises that deal in trade and services has proceeded at a reasonably satisfactory pace, OECD officials report that the privatization program for large east German state enterprises is only now getting off the ground.

The German Government's decision to finance unity through borrowing has raised concerns about the financial viability of west Germany. Continued recourse to such actions, the OECD warns, could place serious strains on the capital market, putting upward pressure on interest rates while crowding out private investment. The OECD credits a series of recent revenue-enhancing measures undertaken by the Government for slowing the rise in the budget deficit. The report maintains, however, that these actions must be accompanied by equally determined efforts by the Government to cut subsidies, which have actually increased with the channeling of public funds to the newly established eastern states. Under these circumstances, the OECD suggests that west Germany is the most obvious place to begin trimming subsidies.

Grocery store in east Germany: massive financial transfers to east Germany have been used by east Germans to purchase western goods.

John Starrels,
IMF, External Relations Department

Copies of the OECD's Economic Survey of Germany may be obtained from OECD Publications, 2 rue André-Pascal, 75775 Paris Cedex 16, France.

IMF SURVEY
August 26, 1991
Volume 20, Number 17

Gerald R. Rosen, *Editor*
Pamela J. Bradley, *Senior Editor*
Vikram R. Khanna, *Assistant Editor*
Sheila Meehan, *Assistant Editor*
Susan Scott, *Art Editor*
Philip Torsani, *Graphic Artist*

The *IMF Survey* (ISSN 0047-083X) is published by the International Monetary Fund 23 times a year, ordinarily on alternate Mondays, in addition to an annual *Supplement on the Fund*, an annual Index, and other occasional supplements. Editions are also published in French (*Bulletin*) and Spanish (*Boletín*).The opinions and materials contained in the *IMF Survey*, including any legal aspects, do not necessarily reflect the official views of the IMF. Editorial correspondence should be addressed to Current Publications Division, Room IS5-1500, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-8585. The *IMF Survey* is distributed by first-class mail in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged an annual rate of US$60.00. Apply for subscriptions to Publication Services, Box S-99, IMF, Washington, D.C., 20431, U.S.A. Telephone: (202) 623-7430. Cable: Interfund. Facsimile: (202) 623-7201.

IMF
SURVEY
A PUBLICATION OF THE INTERNATIONAL MONETARY FUND
September 30, 1991

Annual Meetings . . .

Governors Will Meet in Bangkok To Discuss Global Economic Issues

Finance ministers and central bank governors will travel to Thailand, for the Forty-Sixth Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund. Governors are expected to discuss prospects for the world economy, debt and development issues, events in Eastern Europe and the U.S.S.R., and the status of the IMF's Ninth General Quota increase and the Third Amendment of its Articles of Agreement.

The meetings will be held in Bangkok on October 15–17, under the chairmanship of Pablo R. Better, Ecuador's Minister of Finance and Public Credit. The plenary sessions will be preceded by several smaller, high-level meetings, including meetings of the IMF's Interim Committee of the Board of Governors on the International Monetary System (Interim Committee) on October 13 and of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) on October 14.

1991 Annual Meetings Chairman: Pablo R. Better of Ecuador.

The Interim Committee will be chaired by Carlos Solchaga, Minister of Economy and Finance of Spain, and the Development Committee by Alejandro Foxley, Chile's Minister of Finance. *(Please turn to page 281.)*

CONTENTS

Volume 20, Number 18

IMF ACTIVITIES

Annual Meetings Overview
Page 273

From the Executive Board
Page 284

Currency Units per SDR
Page 286

NATIONAL ECONOMIES

Thailand
Page 274

SELECTED TOPICS

European Economic Association Annual Congress
Page 277

Per Jacobsson Lecture
Page 282

Military Spending
Page 282

U.S. Congressman Gephardt Addresses Trade Issues
Page 287

NATIONAL ECONOMIES

Thailand. . .

Successful Economic Performance Combines Adjustment with Growth

Thailand's economic performance over the past several decades offers an excellent example of successful development, combining adjustment with growth. In the more than forty years since World War II, real GDP growth has averaged 7 percent; poverty has been dramatically reduced; and output and exports have become increasingly diversified.

The country's economic success has led to increasing strains on the economy, however, as evidenced by infrastructural bottlenecks, a sharp increase in the current account deficit, and a rise in inflation. Environmental problems, as well as a deterioration in income distribution, also require policy attention.

The forces behind Thailand's successful economic development, as well as the challenges facing the Government, are discussed at length in *Thailand: Adjusting to Success—Current Policy Issues*, which is No. 85 in the IMF's Occasional Paper series. The study, which was written by IMF staff members David Robinson, Yangho Byeon, and Ranjit Teja with Wanda Tseng, offers a timely review on the occasion of the 1991 Annual Meetings of the Boards of Governors of the World Bank and the IMF in Bangkok, to be held on October 15–17.

Checking meters at a natural gas terminal in Bang Pakong, Thailand: the Government has taken a number of steps to reduce shortages of skilled labor.

Overview

According to the study, during the first two decades of Thailand's postwar history, its economic development was generally very successful. With the adoption of a comprehensive industrialization strategy at the turn of the decade, GDP growth, which had averaged 5.2 percent in the 1950s, accelerated to an average 7.4 percent during 1960–72. Thus, despite rapid population growth, real GDP per capita doubled over the period, and the proportion of the population below the poverty line fell dramatically. At the same time, inflation remained low, and—at least until the latter part of the 1960s—the current account deficit was moderate.

From 1972, however, Thailand—in common with many other developing countries—experienced a sharp deterioration in its terms of trade. Over the ensuing 12 years, real GDP growth remained well below the levels of the previous period; inflation rose sharply immediately after the two oil shocks; and a substantial and persistent current account deficit emerged, which led to a significant increase in Thailand's external debt and debt service. These problems were aggravated by expansionary fiscal policies.

The Government adopted adjustment policies before these problems became acute, so that Thailand's difficulties were moderate compared with those of many other developing countries. Moreover, Thailand enjoyed access to international capital markets throughout the period.

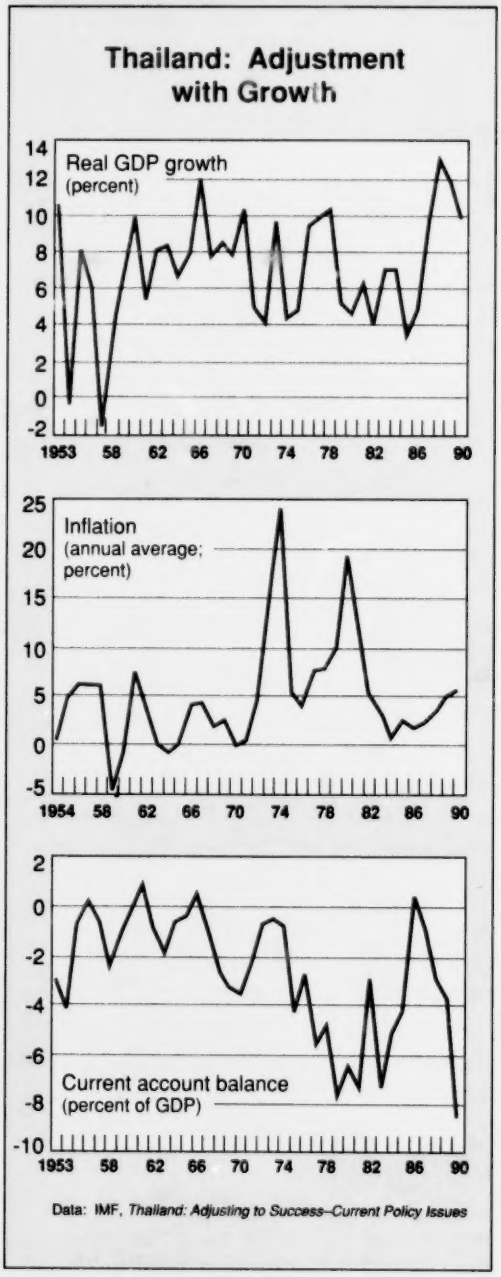
Since 1986, Thailand has experienced an economic boom, unparalleled in its postwar history. Real GDP has risen by an average of over 11 percent a year, high both in absolute terms and in comparison with that of other dynamic countries in the region. Manufacturing output and exports have increased and become more diversified: more than half of the export growth over the period has been at-

tributable to nontraditional exports. At the same time, both construction—associated with a boom in real estate prices and development—and services, particularly in the financial sector and in tourism, have grown rapidly.

The driving forces underlying the expansion have been twofold, according to the study: first, a boom in manufacturing exports, which have grown by an average 29 percent a year in volume terms during the period; second, a surge in private investment, particularly in the export-oriented manufacturing sector, whose share of GDP more than doubled, to 29 percent from 14 percent between 1986 and 1990.

These developments, in turn, had several common causes. First, by 1986, the depreciation of Thailand's currency, the baht, had improved the competitiveness of Thai exports. Second, particularly after 1988, Thailand—like other countries in the region—benefited from a surge in foreign direct investment, much of which reflected plant relocations from Japan and the Asian newly industrializing economies in response to economic restructuring in those countries. Third, export growth was also boosted by the elimination of most export taxes and other burdens on exporters, while domestic costs—particularly wages—remained quite low relative to Thailand's main competitors.

By late 1989, however, it had become clear that the strength of Thailand's economy had brought with it a number of problems. Infrastructural bottlenecks—which had been apparent for a number of years—became increasingly serious, especially in transportation, port capacity, and water and electricity supply. At the same time, shortages of skilled labor, particularly engineers and technicians, began to emerge.



Data: IMF, *Thailand: Adjusting to Success–Current Policy Issues*

In response, the authorities implemented a series of measures in early 1990 to reduce excess liquidity and dampen credit demand, including the reintroduction of a 10 percent withholding tax on interest payments of foreign loans; the abolition of ceilings on deposit interest rates; an increase in the lending rate ceiling to 16.5 percent from 15 percent; and the sale of 13.5 billion baht of Bank of Thailand bonds (equivalent to about 8 percent of reserve money).

Policy Challenges

The main economic challenge for Thai policymakers continues to be how best to sustain the expansion of the past four years while at the same time avoiding overheating the economy and beginning to eliminate infrastructural and other constraints to growth in the longer term. In the short term, the current account deficit increased sharply in 1990. To a considerable extent, the increase is the natural consequence of Thailand's rapid industrialization; and, in contrast with earlier periods, is due not to higher public sector deficits but to booming private sector investment, much of which has been concentrated in export-oriented industry. Nonetheless, if the deficit were to continue at present levels over a longer period, external debt and debt service would grow considerably, and Thailand's vulnerability to external shocks would increase correspondingly. Consequently, the report notes, the authorities intend to continue to implement cautious fiscal and monetary policies, combined with measures to encourage both exports

and private savings, to facilitate a steady reduction in the deficit over the medium term.

In the long term, the most crucial issues are structural. Strains on the domestic infrastructure and in certain segments of the labor markets have become increasingly apparent in recent years. These strains have added to inflationary pressures and, in some cases, have brought both environmental and health problems in their wake. Public investment in infrastructure has been increased, and a wide-ranging program of projects is now under consideration, in which the private sector is expected to play a leading role.

While the timing and status of many of these projects have yet to be determined, they will likely require substantial investment, which, in turn, reinforces the need to strengthen domestic savings if excessive foreign borrowing is to be avoided. To support this strategy, the Government has also taken a number of steps to reduce shortages of skilled labor, including establishing guidelines to encourage training for apprentices and those wishing to upgrade their skills, and promoting measures to increase the output of engineering and technical graduates. Efforts are also under way to improve the quality of growth, including measures to address environmental problems and to prevent a deterioration in income distribution.

Copies of Occasional Paper No. 85, *Thailand: Adjusting to Success—Current Policy Issues*, are available for US$10.00 (US$7.50 for full-time faculty members and students at universities and colleges). Please write to Publication Services, Box S-328, International Monetary Fund, 700 19th Street, N.W., Washington, D.C. 20431.

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
September 16	7.22
September 23	7.23
September 30	7.20

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF Treasurer's Department

SELECTED TOPICS

Economists Discuss Eastern Europe, Uruguay Round, and European Monetary Union

The challenges of economic restructuring in Eastern Europe, some of the obstacles to completion of the Uruguay Round, and the costs of European Economic and Monetary Union were among the issues discussed at the sixth Annual Congress of the European Economic Association, which was held at the University of Cambridge, United Kingdom, from August 30 through September 2. The conference, which brought together more than six hundred economists and policymakers, featured over two hundred sessions on a number of theoretical and policy-related issues.

Eastern European Reforms

What are the lessons for Eastern Europe from Latin America? This was the subject of a paper by Vittorio Corbo of the Catholic University of Chile, who focused on the experiences of Chile and Mexico. He noted that both these countries had highly distorted economies before they embarked on radical reforms. Chile, for example, was virtually isolated from foreign trade by 1973; some of its tariffs were more than 1,000 percent, and its nontariff barriers were also high. Its large public sector ran a deficit equivalent to almost one third of GDP, which was financed mostly through monetary expansion. And inflation was at triple-digit levels, with more than three thousand commodities subject to price controls. Similar distortions were pervasive in the Mexican economy on the eve of economic reforms in 1982.

Corbo pointed out that both Chile and Mexico gave priority to stabilization through fiscal adjustment, which was achieved mainly through cutting government spending and downsizing the public sector. Another important reform that came early and also involved tough decisions was labor market deregulation. Trade reforms came later: Corbo noted that, in Chile's case, these began in 1975 and were not completed until 1980.

> ***"Growth takes a long time to come, because investment takes a long time to come"***

What can be learned from these experiences? The first lesson, according to Corbo, is that economic instability can prove "very stubborn." In Chile, for example, inflation remained at triple-digit levels until 1977—that is, for four years after reforms had been set in motion—even though the public sector deficit had, by then, been eliminated. "This suggests an important role for income policies," he said, "but only *after* fiscal adjustment."

Second, "growth takes a long time to come," Corbo pointed out, "because investment takes a long time to come." "Investors want to be sure they will have the right incentives, not tomorrow morning," he said, "but six months from now, a year from now, three years from now." He added that an important part of stimulating investment lay in institutional reform—notably, in strengthening property rights and commercial law.

A third lesson, said Corbo, is that "the supply response in the export sector can be substantial if the incentives are right." He pointed out, for example, that in Mexico, non-oil exports now account for more than one half of total exports, compared with, at most, one third until 1985. And, as incentives have improved, Chile's agricultural exports have boomed to more than $1 billion a year, from barely $5 million 15 years ago.

Corbo pointed out that the lessons from Chile and Mexico are clearly relevant for the economies of Eastern Europe, where macroeconomic imbalances are large and structural distortions are high. The first priority for these countries should be to stabilize their economies, "to get inflation down and out; otherwise, no reforms will work." Their second priority should be to improve resource allocation and the incentive structure. Notably, the prices of public utilities should be set close to long-term marginal costs, and those of tradables close to world prices. Institutional reforms are also crucial, he said, adding that some of these should go hand in hand with stabilization.

During another session, Richard Portes of the Centre for Economic Policy Research in London focused on specific aspects of economic restructuring in Eastern Europe, including the costs of adjustment, sequencing issues, problems of the corporate sector, and financial restructuring.

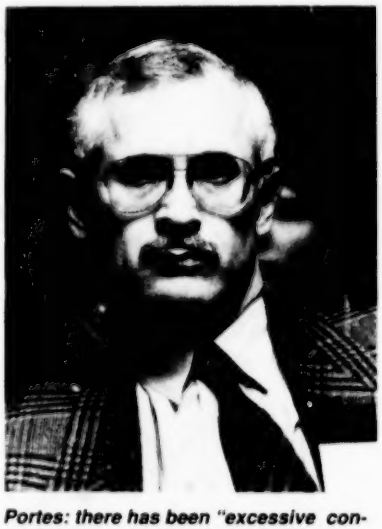
In little over a year, optimism and enthusiasm for economic reform in Eastern Europe have given way to deep pessimism, noted Portes. "We have observed not a 'J curve' of economic transformation, but an 'L curve,' and there's no indication of when we're going to come out of the flat part of that L," he said.

What has gone wrong? One problem, according to Portes, is that adjustment costs following changes in relative prices have been much higher than expected because of distortions in capital and labor markets. In capital markets, for example, there is no legal framework conducive to private ownership and investment, and banking and financial infrastructure is weak. And in the labor market, policies have been inadequate to encourage the mobility—across both firms and sectors—required for economic restructuring.

Then there have been sequencing errors, said Portes—in particular, "an excessive concentration on macroeconomic issues." He contended that "policy should have moved from initial macroeconomic stabilization not to macro fine-tuning but to establishing the micro basis—the legal and institutional framework—for business." In this connection, he argued that Eastern European countries should simply copy applicable legislation from the European Community (EC) rather than write new laws from scratch.

Turning to corporate restructuring, Portes pointed out that firms in Eastern Europe lack autonomy and that the old "tutelage system" between industries and ministries still prevails. He stressed the need for new mechanisms of corporate control that would encourage initiative, risk taking, and innovation.

In the area of financial restructuring, Portes cited as a major problem the rapid growth of inter-enterprise credit, which makes it difficult for the banking system to exercise financial control. For example, he pointed out, "if enterprise A does not pay enterprise B, then B does not pay bank interest on existing loans. So although the banks do not increase credit—they keep



Portes: there has been "excessive concentration on macroeconomic issues."

within monetary targets—nonperforming loans go up."

According to Portes, this problem suggests a need to clean up firms' balance sheets; otherwise, the banks themselves would not survive significant bankruptcies. He cautioned against automatic bankruptcy rules via a credit squeeze in the absence of such a clean up, because this "would catch the wrong firms and create unnecessary unemployment." A better way, he suggested, would be to impose "selective bankruptcies in the case of enterprises where most indicators show and predict economic failure."

How might selective bankruptcy rules be devised and applied? Paul Hare of Herriot-Watt University and the Centre for Economic Performance at the London School of Economics sheds some light on this question in a paper he co-authored with Gordon Hughes of the University of Edinburgh. The aim of the paper, according to Hare, was to assess the international competitiveness of industries in four Eastern European economies—Bulgaria, Czechoslovakia, Hungary, and Poland.

He noted that given the still highly distorted price and tax structure in these economies, many industries appear to be profitable when in fact they would not be if distortions were low. Conversely, some industries that appear to be loss makers would be profitable in a less distorted economy.

Hare presented measures of international competitiveness that were obtained by calculating domestic value added for various industries at world prices, relative to domestic resource costs, using input-output data. The results showed that

- For each of the four economies, correlations between value added at world prices and at domestic prices were low—which suggests that industrial performance at world prices was well worth measuring.
- A "disturbingly high" proportion of manufacturing output (one fourth to one fifth in Czechoslovakia, Hungary, and Poland) was produced by industries with negative value added at world prices—that is, by industries whose inputs cost more than the value of their output. Examples were the cement industry in Bulgaria, the entire food industry in Czechoslovakia, the iron and steel industries and much of the food processing industry in Hungary, and the basic metal and cement industries and certain food processing industries in Poland.

• In all countries, but especially in Bulgaria and Czechslovakia, domestic resource costs varied widely between industries. Therefore, evaluation at world prices did not systematically raise or lower estimated value added across the board; that depended on the industry.

• The four countries were competitive in different industries, with hardly any overlap.

According to Hare, these results suggest that while the need to eliminate economic distortions remains crucial, there is also a role for a "moderately active industrial policy," which would involve consciously directing resources to those industries that show competitive promise while restricting resources to those that do not. In addition, the wide variation of domestic resource costs between industries within each economy implies that there would be sizable gains from better resource allocation. Finally, the lack of overlap between the four economies in terms of potential competitiveness suggests that specialization based on comparative advantage would not lead to the expansion of the same industries. It also means that Eastern European countries could benefit greatly by increasing trade with each other.

Issues in the Uruguay Round

A session on the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT) focused on areas of the Round where tensions are high, including agriculture, services, trade-related intellectual property rights (TRIPS) (such as copyrights, patents, and trademarks), and trade-related investment measures (TRIMS) (such as local content, export, and equity requirements).

Discussing agriculture, Kym Anderson of the GATT Secretariat and the University of Adelaide, Australia, noted that six years through the Uruguay Round, the "food export subsidy war" between the United States and the European Community is still going on. The stakes are high, he said; a failure to agree on farm trade not only puts other areas of the Uruguay Round at risk but also threatens the economic reforms of a number of developing and former centrally planned economies—among them many potential agricultural exporting countries.

Anderson discussed the results of recent research on two issues: the effects on developing countries of the elimination of agricultural protection by the industrial countries; and the effects on industrial countries of partial reforms in farm trade—a more realistic possibility than total reform.

Anderson: the stakes are high in the farm trade war.

According to Anderson, in the early years of the Uruguay Round, it was commonly presumed that, as net food importers, developing countries as a group would lose if the industrial countries were to eliminate agricultural protection, because world food prices would rise. But he pointed out that the results of recent research have caused the weight of opinion to swing to the view that most developing countries—including food importers—would more likely gain from freer trade in temperate food products. This is because of a number of reasons:

• higher world food prices and easier access to industrial country markets would induce many developing countries to switch to being net exporters of food.

• to the extent that higher world food prices are transmitted to developing countries' economies, resources would be attracted away from protected manufacturing sectors—where they are inefficiently used—toward the farm sector; and

• developing countries might be induced to roll back policies that discriminate against agriculture. The resulting welfare gains could, even for net food importers, outweigh terms-of-trade losses.

What would be the effects on the industrial countries of agricultural trade reforms that are partial (say, 50 percent) and gradual (that is, phased over the 1990s)? According to Anderson, recent research shows that

• food output would continue to expand—although by less than if there were no reform;

• food self-sufficiency would decline only modestly, even in Japan; and

• world food prices would become more stable, which would also benefit the rest of the world.

David Greenaway of the University of Nottingham discussed why services, TRIPS, and TRIMS have become important in the Uruguay Round and how they might be integrated into the GATT framework.

He offered three reasons for the priority accorded to services, TRIPS, and TRIMS on the agenda of the Uruguay Round:

• Comparative advantage has shifted over the last two decades: the indus-

trial countries have increasingly transferred relatively low-technology manufacturing activities to the developing world while concentrating on more sophisticated, human capital-intensive activities, where rules governing market access and rights of establishment are ill defined.

• The reduction of tariffs has induced countries to gain trading advantages through other means, including protecting service sectors, disregarding intellectual property rights, and maintaining restrictive TRIMS.

• Services, TRIPS, and TRIMS are closely associated with direct foreign investment, which has increased substantially during the last decade.

Would the extension of GATT disciplines to services, TRIPS, and TRIMS be beneficial for the world economy? According to Greenaway, the answer is clear—and affirmative—in the case of services. But for TRIPS and TRIMS, the issues are somewhat more complicated. For example, the optimal duration of a patent from a global welfare point of view is not at all clear. Nor are the welfare effects of TRIMS, such as minimum local equity requirements.

Greenaway added, however, that it might be possible to extend some GATT principles to cover services, TRIPS, and TRIMS—notably, principles such as the most-favored-nation clause, mutual recognition, and equality of treatment for national and foreign firms.

European Monetary Union

Patrick Minford of the University of Liverpool presented a paper coauthored with Anupam Rastogi and Andrew Hughes-Hallet that investigated the merits of a single currency in Europe.

Minford challenged the claim made in the 1990 EC Commission Report entitled *One Money, One Europe* that full European Economic and Monetary Union (EMU) with a single European currency is the best means of achieving macroeconomic stability. He argued that a regime of floating currencies would be superior in coping with most macroeconomic shocks.

To substantiate this view, Minford presented results of simulations on a model of the U.K. economy. Noting that "how floating or fixed exchange rates behave in the face of shocks depends on how monetary policy behaves," he first compared the stabilizing ability of floating and fixed (EMU) rates with money supply held constant both in the United Kingdom and in the rest of the EC. He found that

Minford: "What you really want is all your degrees of monetary freedom and coordination."

• floating and EMU exchange rate regimes would provide roughly the same degree of stabilization of inflation, output, and employment in the face of demand-side shocks (such as shocks stemming from fluctuations in consumption and wage levels);

• a floating exchange rate regime would provide twice the degree of stabilization as an EMU regime in the face of policy shocks (for example, those resulting from changes in tax rates); and

• floating rates would be far superior in coping with external shocks.

What if money supply is not held constant, but is allowed to respond to shocks? Minford noted that, in this case, economic theory suggests that a floating exchange rate regime allows an extra degree of freedom for monetary policy that is not available under a fixed exchange rate regime. But the counter argument offered by its proponents is that EMU forces its participants to coordinate monetary policies and that the gains from this should be traded off against the loss of monetary policy freedom. "In other words," said Minford, "lots of monetary policy freedom but no coordination is being compared with little monetary freedom with total coordination."

"But what you really want," Minford maintained, "is all your degrees of monetary freedom *and* coordination," which he considered feasible. "I see no reason to believe that you can get coordination only by fixing exchange rates," he said. "It should be possible to coordinate with independent monetary policies—in other words, to get the best of both worlds." He then presented results of simulations of different combinations of exchange rate and monetary policy arrangements for nine European countries, which showed that a regime that combined floating with monetary coordination was, indeed, the best way to achieve macroeconomic stability.

Minford concluded that "in its insistence on EMU, the EC has gone down the wrong track. It *can* eat its cake and have it," he said. "To get the benefits of monetary coordination, it does not have to lash itself to some unified mast. It can deal with the siren voices, steer the ship, and adjust to shocks. *And* we can coordinate, if it suits us."

Vikram R. Khanna,
Assistant Editor, *IMF Survey*

Ministers to Discuss Global Savings

(continued from front page) As background for their discussions, Governors will have before them a number of reports prepared in the IMF and the World Bank.

Plenary Sessions

Chairman Better will call the 1991 Annual Meetings to order on Tuesday, October 15 and will deliver the opening address. Thereafter, World Bank President Lewis Preston and IMF Managing Director Michel Camdessus will address the Governors and present the annual reports of their respective organizations.

The plenary discussions will continue on October 16 and 17. Governors will discuss prospects for the world economy and are expected to focus, in particular, on the adequacy of global savings, in view of the substantial investment needs of industrial and developing countries and the additional demands for capital associated with German unification, economic reform in Eastern Europe and the U.S.S.R., and reconstruction in the Middle East.

Related Meetings

The Annual Meetings will be preceded by a number of high-level meetings. Governors who are members of the Interim Committee will discuss the outlook for the world economy, particularly short- and medium-term prospects and policies in industrial countries, promotion of adjustment and growth in developing countries, and management of the debt situation.

Interim Committee members are also expected to review progress toward consent to the IMF's Ninth General Quota increase and acceptance of the Third Amendment of the IMF's Articles of Agreement. In addition, Interim Committee members will review the adequacy of global savings and the productive use of resources; recent developments in Eastern Europe and the U.S.S.R.; and prospects for trade liberalization in the context of the Uruguay Round of multilateral trade negotiations.

The Development Committee will discuss two main issues at its meeting on October 14: development priorities for the 1990s, and the development of human resources in developing coun-

1991 Annual Meetings at a Glance

Following is a schedule of the preparatory meetings and the plenary sessions associated with the Forty-Sixth Annual Meetings, which will take place in Bangkok, Thailand, beginning October 11:

Preparatory Meetings

Friday, October 11	**Deputies of Group of 24** *Chairman:* Hernán Mejía, Colombia
Saturday, October 12	**Ministers of Group of 24** *Chairman:* Rudolf Hommes, Colombia
Sunday, October 13	**Ministers of Group of 10** *Chairman:* Philippe Maystadt, Belgium **Interim Committee** *Chairman:* Carlos Solchaga, Spain
Monday, October 14	**Interim Committee** **Development Committee** *Chairman:* Alejandro Foxley, Chile

Plenary Sessions

Tuesday, October 15	**Opening Ceremonies**
Addresses by:	Pablo R. Better, Ecuador *Chairman, Boards of Governors* Lewis T. Preston, *President of the World Bank* Michel Camdessus, *Managing Director of IMF* **Plenary Session**
Wednesday, October 16	**Plenary Sessions**
Thursday, October 17	**Plenary Session** **Closing Ceremonies**

tries. In discussing the first of these issues, the Committee is expected to focus on the priorities and development objectives for the 1990s that have emerged from discussions during the past few years, including achievement of sustainable growth, reduction of poverty, and protection of the environment. In the second area—human resource development—Ministers will examine ways to mobilize and allocate resources for the social sectors, in recognition of the priority to be accorded investment in human resources. The Committee will also discuss current trade issues, and will have before it progress reports on the debt strategy and its impact on development, private sector development, and women in development.

Amnuay Viravan Will Deliver Per Jacobsson Lecture

Amnuay Viravan, a national of Thailand and Chairman of the Executive Board of Bangkok Bank, will deliver the Per Jacobsson lecture in Bangkok on October 13. He will speak on "Privatization: Financial Choices and Opportunities."

The Per Jacobsson lecture, created in honor of the IMF's third Managing Director and sponsored by the Per Jacobsson Foundation, will be given in conjunction with the 1991 Annual Meetings of the World Bank Group and the IMF.

Sir Jeremy Morse, Chairman of the Board of the Per Jacobsson Foundation, will make the opening remarks, and a question-and-answer period will follow Amnuay Viravan's presentation.

Experts Discuss Implications of Reducing Military Expenditures

Against a backdrop of sweeping change in global politics, a panel of experts reviewed the implications of military expenditures for developing economies and explored how these outlays could be diverted into economic and social development. The discussion, which opened the IMF's sixth annual Economic Forum series, featured experts from the United Nations, the U.S. Arms Control and Disarmament Agency, the Overseas Development Council, and the IMF.

Daniel Hewitt: roughly 5 percent of world GDP has been allocated to military outlays over the past two decades.

Shuja Nawaz, Editor of the joint IMF-World Bank publication, *Finance & Development*, opened the discussion with an examination of the nature of military expenditures and their impact on developing countries. "It's not simply a matter of outlays," he said, "but also an issue of the forgone benefits of such outlays that could be derived from a more productive use of these often scarce resources."

Superpower tensions may be fading, he noted, but regional and civil conflicts appear to be escalating; 16 such conflicts erupted in 1990 alone. The cost of armaments has also added significantly to the payment burden of developing countries. "Arms aid," he added, "has been replaced by arms trade, with military debts now accounting for a large proportion of individual country external debt."

Daniel Hewitt, an economist in the IMF's Fiscal Affairs Department and the author of two recent studies on military expenditures, reviewed his findings on international trends and the causes of military expenditures. He noted that roughly 5 percent of world GDP (representing nearly one sixth of all central government expenditures) has been allocated to military outlays over the past two decades. From an international perspective, he stressed, military spending provides a "negative externality": it decreases the perceived security of other nations. "If one can decrease military expenditures in each and every country and maintain the security balance that existed prior to that activity, one could increase the welfare of the entire world," he said.

Hewitt found that the Middle East, North Africa, and Eastern Europe ranked highest in terms of their ratio of military expenditure to GDP. While both external and internal political situations were important causes of military expenditures, Hewitt indicated that military expenditure was a luxury good, not a necessity. Low-income countries have the lowest ratio of military expenditures to GDP, but as GDP rises, military expenditures rise even faster (although this trend flattens out at high income levels). Net creditor countries spend more than other groups; highly indebted countries

spend less, with foreign financing having a high impact on military expenditure. "Government expenditures are fundamentally an allocation choice," Hewitt emphasized. Countries that have tight financial constraints are likely to spend less on military expenditures than others."

Daniel Gallik, Senior International Economist in the U.S. Arms Control and Disarmament Agency and Editor of *World Military Expenditures and Arms Transfers*, praised Hewitt's study as "the type that needs to be done." Earlier studies, starting with Emile Benoit's work, have noted the influence of military expenditure on development, he said, but their methodology has been suspect. Although the topic had virtually evolved into a new discipline, it has not yet, he maintained, become "very disciplined."

Gallik noted that the idea of tying aid to the level of military expenditures has garnered increased support within the aid community in recent years. This concept of conditionality has been endorsed within the Group of 7, particularly by Germany and Japan, but Gallik believes it will be a "controversial and difficult principle to apply." It would be difficult to deny a country's right to self-defense, he added.

"What is needed is not the reduction of military spending by individual countries so much as joint or collaborative reductions. Spending by one country can be a threat to another country, and it is only when several countries that have a relationship with each other reduce their spending jointly that the gain is felt universally." Gallik was cautiously optimistic that, given "remarkable recent events," mutually coordinated reductions might be possible in some regions.

It was to those possibilities that Nicole Ball, a visiting scholar with the Overseas Development Council, addressed her remarks. Ascribing increased interest in reduced military expenditures to diminished cold war tensions, Ball observed that donor agencies and governments "are now freer than they have been in recent memory to determine how they will allocate money to governments based on what they think governments are doing rather than what they think their strategic rival is doing . . . . The lowering of the ideological temperature also means that certain topics, such as military expenditure and political reform, can be raised within the framework of removing impediments to development."

Graciana del Castillo: tremendous potential for restructuring national budgets and international aid allocations.

Very important to understanding how military spending could be cut, she added, is knowing why governments allocate so much of their resources to military expenditures. External conflict, real or perceived, is but one concern. For many countries, she noted, "regime security" is the primary objective.

Citing an estimated forty million deaths from some one hundred twenty-five wars and conflicts since 1945, Ball argued that "the losses in terms of human, financial, and material resources render invalid the sovereignty argument." Superpowers, she stressed, have a special role to play with client countries and can lead by example. The United Nations and regional organizations, she emphasized, "must become more actively involved in conflict resolution and in guaranteeing the territorial integrity of countries precisely so governments can feel safe to reduce expenditure."

Multilateral lending institutions have legal mandates that prevent them from basing lending on political criteria, she noted, but they, too, could play a role by determining the true level of military expenditures; incorporating these data into discussions with borrowing countries; facilitating donor coordination so that countries do not receive mixed signals; and reducing assistance if military expenditures interfere with projects or programs in these countries.

Graciana del Castillo, Special Assistant to the Assistant Secretary-General (Office of the Director-General for Development and International Economic Cooperation of the United Nations), confirmed there was "tremendous potential for restructuring both national budgets and international aid allocations." At present, she said, less than 10 percent of national budgets and less than 8 percent of bilateral aid budgets are earmarked for priority expenditure on human development.

Reiterating a concern that IMF Managing Director Michel Camdessus raised in his July 1991 speech to the United Nations' Economic and Social Council, she noted the difficult problems posed by the current imbalance between savings and investment and the importance of decreasing military expenditures to help reduce this imbalance. She also noted the United Nations' current, and potential, role in reducing regional tensions and in monitoring arms trade.

From the Executive Board . . .

Dominican Republic: Stand-By Credit. The IMF has approved the use of its resources by the Dominican Republic totaling SDR 84.08 million (about $113 million). Of this total, up to SDR 39.24 million (about $53 million) may be drawn over the next 19 months under a stand-by credit in support of the Government's 1991–92 economic program. An additional SDR 44.84 million (about $60 million) is available immediately under the compensatory and contingency financing facility (CCFF) to cover the excess cost of oil imports and a shortfall in export earnings during the 12-month period ended March 1991.

The Dominican economy has experienced a marked improvement in response to an economic program that the authorities began implementing a year ago. Previously, the economy had experienced accelerating inflation, a decline of its international reserves, and a large accumulation of external payments arrears. This situation was aggravated in early 1990 by a sharp deterioration in the country's terms of trade.

Starting in August 1990, the Dominican authorities introduced measures that included substantial increases in public sector prices, adjustments in the exchange rate, and a tightening of credit and public investment policies. Later, the Government introduced a flexible exchange rate system and moved to unify the exchange rates in the official and free markets. These measures resulted in a marked improvement of public sector finances and a significant decline in the rate of inflation, with almost no change in prices in the first half of 1991. Moreover, international reserves have risen, and the Dominican Republic's arrears with the multilateral institutions have been eliminated, allowing the country to regain access to these sources of financing.

The authorities' economic program for 1991–92, which is supported by the IMF stand-by credit, seeks to strengthen the Dominican Republic's balance of payments, reduce inflation, and create the conditions for sustained economic growth. To this end, the program seeks a further improvement of the public finances through a combination of cutbacks in public sector investment from unsustainable levels, restraints on current expenditures, a tax reform designed to enhance revenues on a permanent basis, and realistic pricing policies for public sector goods and services. The program envisages increased reliance on open market operations in the conduct of monetary policy, wage policies consistent with the objectives of the program, maintenance of a flexible, market-based exchange rate system, and structural measures to improve the prospects for private investment. Also contemplated in the program is a restoration of relations with external creditors and clearance of outstanding arrears, including rescheduling through the Paris Club.

The request under the CCFF will help to compensate for the temporary increase in the price of oil imports caused by the Middle East crisis and a shortfall in income from exports reflecting the decline in world prices of ferronickel, cocoa, coffee, and gold, and drought conditions in 1990, which adversely affected production of all agricultural exports.

The Dominican Republic is an original member of the IMF, and its quota is SDR 112.1 million (about $150 million). [A member's quota in the IMF determines, in particular, its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Its outstanding financial obligations to the IMF resulting from past operations and transactions currently total the equivalent of SDR 20.8 million (about $28 million).

Press Release No. 91/42, August 28

Estonia: Application for Membership. The Government of the Republic of Estonia has filed an application for membership in the IMF. In accordance with prescribed procedures, the application will be considered, first, by the IMF's Executive Board. After its consideration, the Executive Board will submit a report to the Board of Governors of the IMF with recommendations in the form of a "Membership Resolution." These recommendations cover the amount of quota in the IMF, the form of payment of the subscription, and other customary terms and conditions of membership. After the Board of Governors has adopted the Membership Resolution, the Republic of Estonia would need to take the legal steps required under its law to enable it to sign the IMF's Articles of Agreement and to fulfill the obligations of membership in the IMF.

Press Release No. 91/43, September 9

Zaire: Ineligibility. The Executive Board of the IMF has declared Zaire ineligible to use the general resources of the IMF, effective September 6, 1991, pursuant to Article XXVI, Section 2(*a*) of the Articles of Agreement. This decision was taken in light of Zaire's overdue financial obligations to the IMF, which totaled SDR 60.97 million (about $81.7 million) as of September 6, 1991. This amount represents 21.0 percent of Zaire's quota in the Fund.

Press Release No. 91/44, September 10

Lithuania: Application for Membership. The Government of the Republic of Lithuania has filed an application for membership in the IMF. In accordance with prescribed procedures, the application will be considered, first, by the IMF's Executive Board. After its consideration, the Executive Board will submit a report to the Board of Governors of the IMF with recommendations in the form of a "Membership Resolution." These recommendations cover the amount of quota in the IMF, the form of payment of the subscription, and other customary terms and conditions of membership. After the Board of Governors has adopted the Membership Resolution, the Republic of Lithuania would need to take the legal steps required under its law to enable it to sign the IMF's Articles of Agreement and to fulfill the obligations of membership in the IMF.

Press Release No. 91/45, September 12

Peru: Rights Accumulation Program. The IMF has endorsed Peru's economic and financial program and approved the accumulation of "rights" for Peru for up to a maximum of SDR 623.7 million (about $845 million), equivalent to the level of its arrears to the IMF as of June 30, 1991. Upon successful implementation of this program and prior clearance of its arrears to the IMF, Peru would be able to request IMF financial resources under a successor IMF-supported program up to an amount equivalent to the accumulated rights.

The accumulation of rights for Peru is the second approved by the IMF under the rights approach endorsed by the IMF Interim Committee at its May 1990 meeting. Zambia entered into a three-year rights accumulation program in April of this year. Through this procedure, a member with protracted arrears to the IMF at the end of 1989 can earn rights based on its performance under an IMF-monitored adjustment program. The accumulated rights can then be encashed as the first disbursement under a successor IMF-supported program.

Peru may accumulate rights up to the equivalent of SDR 207.9 million (about $282 million) by December 1991. The remaining rights will be phased over the next four quarters of the program through December 1992. Peru is expected to enter into a similar accumulation program with the World Bank, and is in the process of clearing its arrears to the Inter-American Development Bank (IDB) to enable the IDB to resume lending to Peru. Under the present IMF-monitored program, Peru intends also to meet fully all obligations falling due to both multilateral institutions.

The Government that assumed office in July 1990 found Peru's economy in the midst of a deep and growing crisis. Real GDP had fallen by 20 percent in the two previous years, inflation had reached levels above 3,000 percent a year, and international reserves were virtually exhausted. Furthermore, over two thirds of Peru's external debt was in arrears, including arrears to the IMF, the World Bank, and the IDB, which made the country ineligible for further financial support from those institutions.

Since August 1990, the Government has been implementing a program of macroeconomic and structural adjustment aimed at reducing inflation and establishing the conditions for sustained economic growth in the medium term. The program also aims to make progress toward a viable balance of payments position while re-establishing relations with external creditors. To achieve these objectives, the authorities have adopted tight fiscal and monetary policies, established a unified floating exchange rate, and implemented wide-ranging structural reforms to reduce distortions and increase competition. These have included reforms of the public sector, simplification of the tax system, liberalization and simplification of import tariffs, and the elimination of quantitative import restrictions and of exchange restrictions on payments for current international transactions. The program incorporated measures to help offset the short-term impact on the poor of reductions in subsidies and increased prices, as well as to improve basic health services.

The results have been positive to date. Monthly inflation has been reduced to single-digit rates, and economic activity, which contracted sharply after the initial measures, has recovered gradually to the levels prevailing before the program was implemented. Financial discipline and renewed confidence in the country's economic management have resulted in large private capital inflows and a recovery in international reserves.

The program for 1991–92 aims at restoring economic growth to between $2^1/_2$ and 3 percent in 1991 and to $3^1/_2$ percent in 1992, reducing the rate of inflation to international levels by the end of 1992, improving the external payments position, and consolidating the structural transformation of the Peruvian economy that was launched in 1990–91. To these ends, the Government will continue to pursue tight monetary and fiscal policies during the program period and will allow the exchange rate to be determined by market forces. The program seeks to deepen structural reform through further liberalization of the labor and financial markets; the relaxation of restrictions on private domestic and foreign participation in the petroleum, mining, and other sectors; further reforms in the tax system and tax administration; a continued reduction in public employment; and the restructuring, and in some cases privatization, of public enterprises, including official banks. In a continuing effort to alleviate poverty, the National System of Social Compensation and Development will focus increasingly on training and employment-generating projects with funding from the Government and from external donors and nongovernmental organizations. Food assistance from external donors is also expected to expand considerably.

Substantial external financial support is being provided by the support group for Peru, and Peru's request for debt relief in the Paris Club is to be considered in the coming days.

Developed for members with protracted arrears to the IMF at the end of 1989, accumulation of rights under programs that are endorsed and monitored by the IMF requires the assistance of donors and creditors to generate the financing needed to meet the requirements of the member's economic program and to enable it to remain current on obligations falling due to the IMF and the World Bank. Rights accumulation would generally be phased evenly throughout the period of the program. Monitoring of performance, and subsequent accumulation of rights, is conducted on a quarterly basis.

Peru is an original member of the IMF, and its quota is SDR 330.9 million (about $448 million). [A member's quota in the IMF determines, in particular, its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Its outstanding financial obligations to the IMF, including arrears, currently total SDR 680.2 million (about $922.0 million).

Press Release No. 91/46, September 12

India: Compensatory and Contingency Financing Facility. The IMF has approved a drawing by the Government of India under its compensatory and contingency financing facility (CCFF) equivalent to SDR 468.9 million (about $635 million). The current drawing is related to an increase in India's oil import costs and a shortfall in merchandise export and remittance earnings for the 12 months ended July 1991. India has made two drawings under the CCFF, in January and July of this year.

With this drawing, the IMF's disbursements to India since January 1991, including a purchase under a first credit tranche standby arrangement, will total SDR 1,903.9 million (about $2,579 million). (See Press Release Nos. 91/5 and 91/33.)

India is an original member of the IMF, and its quota in the IMF is SDR 2,207.7 million (about $2,991 million). [A member's quota in the IMF determines, in particular, its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] India's outstanding financial obligations to the IMF resulting from past operations and transactions currently total the equivalent of SDR 1,939.2 million (about $2,627 million).

Press Release No. 91/47, September 12

Sri Lanka: Enhanced Structural Adjustment Facility. The IMF has approved a request by Sri Lanka for loans totaling SDR 336 million (about $455 million) to be made available over the next three years under the IMF's enhanced structural adjustment facility (ESAF) to support the Government's economic and financial program covering the period 1991–94. [The ESAF is the IMF's concessional lending window for assisting its poorest members that are undertaking structural economic programs to substantially strengthen, in a sustainable manner, their balance of payments position. The loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years, with a $5^1/_2$-year grace period.] During the first year of the ESAF-supported program, Sri Lanka may borrow a total of SDR 112 million (about $152 million) in two semiannual disbursements.

Sri Lanka recently completed the implementation of a three-year program supported by the IMF's structural adjustment facility (SAF), during which there was a marked improvement in economic performance. [The SAF is a concessional IMF lending facility whose objectives, eligibility, and basic program features parallel those of the ESAF.] Output started to pick up in late 1989, and the economic recovery continued during 1990 (when real GDP grew by over 6 percent), and through the first half of 1991. There was a steady strengthening of the external position over the period, reflecting, in part, an improvement in export performance. Controlling inflation, however, proved to be more difficult, although some progress was made in dampening the rate of price increases with the adoption of an anti-inflation program in early 1991. As a result, the annual rate of increase in consumer prices had slowed to 12 percent by August 1991, compared with a 20 percent rise in 1990.

The Government's medium-term strategy, covering the period 1991–94 and supported under the ESAF, seeks to maintain high rates of economic growth, reduce inflation and unemployment, and maintain a viable external payments position with greater reliance on foreign investment and, eventually, a reduced dependence on concessional assistance. The program is designed to accelerate the process of industrialization by expanding the areas in which domestic and foreign pri-

vate sector interests will be encouraged to operate, while reducing the public sector's involvement in the economy in both production and trading and regulatory functions. Public investment will be focused on developing infrastructure, and agricultural activities will be rehabilitated in order to release additional domestic resources.

Within this framework, a major objective is to restructure the government budget. This will be based on holding current expenditure growth below that of nominal GDP, avoiding further cuts in capital expenditures, and broadening the revenue base and improving tax administration. At the same time, the pace of privatization will be considerably accelerated over the next two years, and measures will be adopted to minimize government regulation of industry, attract foreign investment, and increase industrial competitiveness through further liberalization of the trade and payments system.

To improve the functioning of the financial sector and to promote the efficient allocation of domestic savings, the commercial banking system will be overhauled, the Central Bank's supervisory responsibilities will be strengthened, and actions currently underway will ensure that interest rates more accurately reflect market conditions.

The objectives of the Government's economic program for 1991–92 are to maintain real annual economic growth at 5–6 percent, continue to reduce inflation, limit the current account balance of payments deficit, and increase official reserves. To achieve these goals, the authorities are implementing a series of fiscal and monetary measures to raise additional revenues, contain government spending, limit credit to public corporations, and enhance market-based determination of interest rates.

Economic policies in Sri Lanka have traditionally shown a strong concern for the poor. The Government's medium-term strategy is to protect budgetary allocations for social services, guard against any adverse impact of adjustment on the poorest sectors of society, cut back or retarget inefficient consumption-based programs, and put in place mechanisms to increase opportunities for the poor to engage in productive activities.

Sri Lanka joined the IMF on August 29, 1950, and its quota is SDR 223.1 million (about $302 million). [A member's quota in the IMF determines, in particular, its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Its outstanding financial obligations to the IMF resulting from past operations and transactions, including SAF loans, currently total the equivalent of SDR 244 million (about $330 million).

Currency Units per SDR

Currency	AUGUST 13	14	15	16	19	20	21	22	23	26
Deutsche mark	2.31542	2.32627	2.33112	2.33278	2.3523	2.37569	2.3581	2.33833	2.31896	2.33802
French franc	7.8799	7.91691	...	...	8.10455	8.03895	7.98704	7.91364	7.89457	7.93896
Japanese yen	182.881	182.312	182.593	182.742	182.508	182.443	181.881	182.525	183.074	182.835
Pound sterling	0.790837	0.793055	0.79459	0.797488	0.807509	0.803738	0.800816	0.793939	0.791344	...
U.S. dollar	1.34126	1.33709	1.3365	1.3334	1.31301	1.32014	1.32486	1.3382	1.34022	1.33456
Argentine austral	3298.6	3257.2	3291.5	3280.7	3084.1	3142.	3179.3	3295.2	3335.2	3318.9
Australian dollar	1.71101	1.71027	1.71236	1.71366	1.69115	1.69162	1.6838	1.7	1.70338	1.6877
Austrian schilling	16.3044	16.37	...	16.4128	16.6367	16.7288	16.6255	16.3779	16.3721	16.4511
Bahrain dinar	0.504314	0.502746	0.502524	0.501358	0.493682	0.496373	0.498031	0.502411	0.503923	0.501796
Bangladesh taka	48.9426	48.7904	48.7689	48.6558	47.9117	48.7	48.9626	49.2924	49.4407	49.2319
Belgian franc	47.7086	47.8745	...	48.0324	48.1263	49.0861	48.7138	47.846	47.9196	48.0642
Brazilian cruzeiro	486.743	...	482.564	...	487.967	493.086	486.415	506.099	510.691	511.817
Canadian dollar	1.53708	1.5299	1.52775	1.52568	1.50221	1.5072	1.51502	1.52798	1.53294	1.527
Colombian peso	863.919	861.674	861.735	860.35	...	952.428	856.467	865.002	866.757	868.21
Danish krone	8.97102	9.00386	9.01135	9.01112	9.21405	9.20788	9.14602	8.98985	8.99633	9.03029
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	5.8239	5.85322	5.86076	5.87096	5.79563	5.81522	5.78974	5.87083	5.86511	5.8819
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	34.7178	34.8151	...	34.6509	34.0365	33.9579	34.1548	34.5364	34.5026	...
Indonesian rupiah	2628.87	2620.7	2620.88	2616.13	2576.13	2592.75	2601.42	2622.96	2630.85	2619.74
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.41694	0.415644	0.415481	0.414497	0.408158	0.410375	0.411748	0.415368	0.416817	0.414858
Irish pound	0.866556	0.870388	0.867407	0.873959	0.863804	0.868385	0.870647	0.870205	0.868131	0.87409
Italian lira	1736.89	1739.78	...	1748.65	1775.94	1769.48	1750.89	1741.13	1737.69	1745.72
Kuwaiti dinar	0.389837	0.388625	0.388962	...	0.388852	0.388412	0.388635	0.389362	...	0.389278
Libyan dinar	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929
Malaysian ringgit	3.722	3.71377	3.70277	3.70285	3.65739	3.6867	3.69523	3.7137	3.72581	3.71475
Maltese lira	0.448804	0.447187	...	0.448654	0.456859	0.456164	0.453442	0.448029	0.448369	0.448773
Mexican peso	...	...	...	...	...	...	...	...	...	...
Nepalese rupee	57.2718	56.96	57.2022	57.0695	56.1968	56.634	56.8867	56.9221	57.2274	56.9523
Netherlands guilder	2.6109	2.62284	2.61379	2.63333	2.6939	2.67896	2.6434	2.62369	2.61586	2.63349
Norwegian krone	9.05954	9.08152	9.09889	9.11312	9.29892	9.32547	9.24006	9.09284	9.10277	9.12838
Omani rial	0.515714	0.514111	0.513884	0.512692	0.504952	0.507594	0.509269	0.513769	0.515315	0.513138
Pakistan rupee	33.0775	32.9746	33.0003	32.9238	32.4203	32.7552	32.8648	33.1537	33.2534	33.113
Portuguese escudo	199.03	199.886	...	200.202	203.837	202.7	201.057	199.482	198.867	200.1
Qatar riyal	4.86219	4.86701	4.86488	4.85358	4.77936	4.80531	4.82126	4.86377	4.8784	4.8579
Saudi Arabian riyal	5.02302	5.0074	5.00519	4.99358	4.91722	4.94392	4.96044	5.00497	5.01912	4.99793
Singapore dollar	2.30737	2.3006	2.29986	2.30038	2.27645	2.29829	2.29743	2.30201	2.31041	2.30132
South African rand	3.84007	3.83681	3.83512	3.84354	3.83204	3.83895	3.82199	3.82953	3.85819	3.84223
Spanish peseta	145.242	145.617	...	146.959	148.413	147.916	148.287	145.229	144.884	145.686
Sri Lanka rupee	55.7964	56.8235	56.8857	56.0028	56.1484	56.5119	56.5849	56.9888	56.1284	56.9047
Swedish krona	8.41775	8.44508	8.45336	8.47109	8.65274	8.66276	8.59633	8.44478	8.45411	8.47713
Swiss franc	2.02329	2.03606	2.0415	2.04184	2.03779	2.0383	2.04113	2.02786	2.02842	2.03787
Trinidad and Tobago dollar	5.71481	5.69684	5.69433	5.68112	5.59424	5.62462	5.64341	5.69306	5.71017	5.68806
U.A.E. dirham	4.92377	4.90848	4.90629	4.89491	4.82008	4.84623	4.86242	4.90519	4.91995	4.89817
Venezuelan bolivar	79.5367	79.4231	79.3346	79.0106	...	78.2183	78.3802	79.1384	79.6761	79.5731

Gephardt Decries Protectionism, Promotes New Trade Bill

The United States needs a tough new trade law to counter the protectionist policies of nations that run large trade surpluses with the United States, according to Richard A. Gephardt, Majority Leader of the U.S. House of Representatives, and one of the most influential voices on trade policy in the U.S. Congress.

Speaking to a luncheon at the Institute for International Economics on September 9, Gephardt said that he would introduce a trade bill that would compel the U.S. president to identify countries that run up surpluses with the United States through protectionist policies and to impose sanctions on those countries if they did not end the practice. "Our amendment reclaims some of the power granted to Congress by the Constitution," said Gephardt, "but which we delegated to the president and his administration. It will reduce the discretion the president has to not take action."

However, if the president chooses not to act, Gephardt continued, he must give Congress a game plan for action "that includes clear, measurable milestones for success," which Congress would then have to approve. "If these milestones aren't met, then retaliatory action would follow."

Currency Units per SDR

AUGUST				SEPTEMBER						
27	28	29	30	2	3	4	5	6	9	Currency
2.31542	2.32627	2.33112	2.33278	2.3923	2.37559	2.3581	2.32833	2.31896	2.33902	Deutsche mark
7.8799	7.91891	...	...	8.10455	8.03965	7.98704	7.91364	7.89457	7.93986	French franc
182.881	182.312	182.593	182.742	182.508	182.443	181.861	182.525	183.074	182.835	Japanese yen
0.790837	0.793055	0.79459	0.797488	0.807509	0.803738	0.800816	0.793939	0.791344	...	Pound sterling
1.34129	1.33709	1.3365	1.3334	1.31301	1.32014	1.32455	1.3382	1.34022	1.33456	U.S. dollar
3298.6	3257.2	3291.5	3260.7	3084.1	3142.	3179.3	3295.2	3335.2	3318.9	Argentine austral
1.71101	1.71027	1.71238	1.71388	1.69115	1.68162	1.6938	1.7	1.70338	1.6977	Australian dollar
16.3044	16.37	...	16.4128	16.8367	16.7288	16.6258	16.3778	16.3721	16.4511	Austrian schilling
0.504314	0.502746	0.502524	0.501358	0.493692	0.496373	0.498031	0.502411	0.503923	0.501795	Bahrain dinar
48.9426	48.7904	48.7689	48.6558	47.9117	48.7	48.8626	49.2924	49.4407	49.2319	Bangladesh taka
47.7096	47.8745	...	48.0324	48.1263	49.0861	48.7136	47.946	47.9196	48.0542	Belgian franc
486.743	...	492.564	...	487.967	493.686	498.415	506.099	510.691	511.817	Brazilian cruzeiro
1.53708	1.5298	1.52775	1.52568	1.50221	1.5072	1.51502	1.52768	1.53294	1.527	Canadian dollar
863.919	861.674	861.725	860.35	...	852.428	856.467	865.002	868.757	866.21	Colombian peso
8.97162	9.00396	9.01135	9.01112	9.21405	9.20798	9.14602	8.98995	8.99623	9.02029	Danish krone
...	...	...	...	...	...	...	...	...	...	Ecuadoran sucre
5.6239	5.66322	5.66676	5.67095	5.79563	5.81522	5.78874	5.67083	5.68511	5.6919	Finnish markka
...	...	...	...	...	...	...	...	...	...	Guatemalan quetzal
34.7178	34.8151	...	34.6509	34.0365	33.9579	34.1548	34.5364	34.5026	...	Indian rupee
2628.87	2620.7	2620.88	2616.13	2576.13	2592.75	2601.42	2622.96	2630.85	2619.74	Indonesian rupiah
92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	Iranian rial
0.41684	0.415644	0.415461	0.414497	0.408159	0.410375	0.411746	0.415388	0.416417	0.414859	Iraqi dinar
0.868559	0.870388	0.867407	0.873959	0.893934	0.888385	0.876547	0.870205	0.868131	0.87409	Irish pound
1736.89	1730.78	...	1748.65	1775.94	1769.48	1750.89	1741.13	1737.69	1746.72	Italian lira
0.389837	0.389625	0.389562	...	0.389852	0.389412	0.389835	0.389382	...	0.389278	Kuwaiti dinar
0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	Libyan dinar
3.722	3.71377	3.70277	3.70265	3.66739	3.6857	3.69523	3.7137	3.72581	3.71475	Malaysian ringgit
0.448804	0.447187	...	0.448654	0.455959	0.456164	0.453442	0.449039	0.448399	0.448773	Maltese lira
...	...	...	...	...	...	...	...	...	...	Mexican peso
57.2718	56.96	57.2072	57.0696	56.1968	56.634	56.8907	56.9221	57.2274	56.9523	Nepalese rupee
2.6109	2.62284	2.61379	2.63333	2.6939	2.67856	2.6434	2.62309	2.61598	2.63349	Netherlands guilder
9.05954	9.08152	9.09889	9.11312	9.28082	9.32547	9.24006	9.09284	9.10277	9.12839	Norwegian krone
0.515714	0.514111	0.513894	0.512692	0.504852	0.507594	0.509289	0.513789	0.515315	0.513139	Omani rial
33.0775	32.9748	33.0003	32.9238	32.4203	32.7552	32.8845	33.1537	33.2534	33.113	Pakistan rupee
199.03	199.888	...	200.202	203.837	202.7	201.067	199.492	198.987	200.1	Portuguese escudo
4.88219	4.86701	4.86486	4.85358	4.77936	4.80531	4.82136	4.86377	4.8784	4.8578	Qatar riyal
5.02302	5.0074	5.00519	4.99358	4.91722	4.94392	4.96044	5.00407	5.01912	4.99793	Saudi Arabian riyal
2.30737	2.3006	2.29868	2.30038	2.27545	2.29929	2.29743	2.30201	2.31041	2.30132	Singapore dollar
3.84007	3.83681	3.83612	3.84354	3.83204	3.83695	3.82199	3.82953	3.85819	3.84223	South African rand
146.242	145.617	...	145.959	148.413	147.916	146.267	145.229	144.884	145.699	Spanish peseta
56.7964	56.8235	56.8857	56.0028	56.1464	56.5119	56.5649	56.9868	56.1284	55.9047	Sri Lanka rupee
8.41775	8.44608	8.45336	8.47109	8.85274	8.68276	8.59833	8.44479	8.45411	8.47713	Swedish krona
2.02329	2.03506	2.0415	2.04184	2.03779	2.0383	2.04113	2.02768	2.02842	2.03787	Swiss franc
5.71461	5.69684	5.68433	5.68112	5.59424	5.62462	5.64341	5.69305	5.71017	5.69806	Trinidad and Tobago dollar
4.92377	4.90846	4.90829	4.89491	4.82006	4.84623	4.86242	4.90519	4.91986	4.89917	U.A.E. dirham
79.5367	79.4231	79.3346	79.0106	...	76.3183	78.3802	79.1384	79.6781	79.5731	Venezuelan bolivar

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

In Gephardt's view, the United States must get serious about world trade and exports. "If it were not for manufactured exports," he maintained, the United States would have a much worse economy than it has now. In contrast to the United States' lack of seriousness in promoting exports, Gephardt contended, "other countries are aggressively pursuing policies to boost their own exports and to help their domestic firms maintain market share at home."

Gephardt also called for "new thinking on North American trade." A supporter of President Bush's request for an extension of fast-track negotiating authority, Gephardt said he is convinced that "a well-negotiated treaty creating a free market area from the Yukon to the Yucatán would be in the deep self-interest of the United States. Indeed, the right kind of free trade treaty with Mexico could create more than a quarter of a million new American jobs, reduce our global trade deficit by $8–9 billion, and help stem the flood of illegal workers."

However, Gephardt cautioned, if the final agreement between the United States and Mexico does not contain sufficient safeguards on the environment and worker rights, Congress will amend or reject it. "We must address these important issues because it's the right thing to do," he said. "At the same time, we must recognize that the inequality in enforcement and standards can act as a competitive advantage. I don't want any U.S. companies relocating their operations to take advantage of lax Mexican enforcement."

Gephardt: NAFTA may provide a model for future trade agreements.

Still, Gephardt believes that a North American Free Trade Agreement (NAFTA) exemplifies "new thinking" in the area of trade. And, in his view, the non-tariff-related macroeconomic issues that Congress has added to the NAFTA agenda will serve to improve the agreement. "We have given Congress a concrete basis for rejecting a bad agreement," Gephardt declared, "which should foster a more constructive dialogue between the executive branch and Congress as the negotiations continue. These breakthroughs mean that the NAFTA may provide a model for future trade agreements."

Gephardt called on the White House to support an aid program for the faltering Soviet economy. "Completing *perestroika* is a matter of life and death for all of us," he said. The United States, in his view, must lead an allied effort to create a modern, market economy in the U.S.S.R. But, Gephardt cautioned, aid would be offered only in exchange for measurable progress toward free markets, private property, and fundamental economic reforms. The aid package would include most-favored-nation trade status for the U.S.S.R., a stabilization fund to back convertibility of the ruble, guarantees for investors willing to venture into the Soviet market, increased credit to finance the sale of Western grain, and technical assistance to help the Soviets create a modern financial system.

Under Gephardt's plan, the United States would contribute $3 billion to this effort, which would be diverted from the military budget. "With the Soviet empire crumbling," Gephardt concluded, "and the forces for democracy ascending, we can surely spend a few billion dollars to draw the Soviets toward democray and to open their markets."

Gerald R. Rosen,
Editor, *IMF Survey*

IMF SURVEY
September 30, 1991
Volume 20, Number 18

Gerald R. Rosen, *Editor*
Pamela J. Bradley, *Senior Editor*
Vikram R. Khanna, *Assistant Editor*
Sheila Meehan, *Assistant Editor*
Susan Scott, *Art Editor*
Philip Torsani, *Graphic Artist*

The *IMF Survey* (ISSN 0047-083X) is published by the International Monetary Fund 23 times a year, ordinarily on alternate Mondays, in addition to an annual *Supplement on the Fund*, an annual Index, and other occasional supplements. Editions are also published in French (*Bulletin*) and Spanish (*Boletin*).The opinions and materials contained in the *IMF Survey*, including any legal aspects, do not necessarily reflect the official views of the IMF. Editorial correspondence should be addressed to Current Publications Division, Room IS5-1500, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-8585. The *IMF Survey* is distributed by first-class mail in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged an annual rate of US$60.00. Apply for subscriptions to Publication Services, Box S-99, IMF, Washington, D.C., 20431, U.S.A. Telephone: (202) 623-7430. Cable: Interfund. Facsimile: (202) 623-7201.

IMF
SURVEY
A PUBLICATION OF THE INTERNATIONAL MONETARY FUND
October 14, 1991

U.S.S.R. Signs Accord Providing for Special Association with IMF

At a meeting in Moscow on October 5, IMF Managing Director Michel Camdessus and Soviet President Mikhail S. Gorbachev signed an agreement under which the U.S.S.R. enters into a Special Association with the IMF.

Under this Special Association, the U.S.S.R. will immediately receive wide-ranging technical assistance from the IMF. The agreement also provides for technical assistance and policy advice to be extended to the individual republics at their request.

For full details of the agreement, please turn to page 293.

IMF Managing Director Michel Camdessus (left) with Soviet President Mikhail Gorbachev in Moscow: the IMF will assess the economic policies of the U.S.S.R.

CONTENTS

Volume 20, Number 19

IMF ACTIVITIES

U.S.S.R.: Special Association with the IMF
Page 289

***Annual Report*, 1991**
Page 290

Managing Director's Statement from Moscow
Page 293

Terms and Conditons of Special Association Agreement
Page 294

Managing Director's Moscow Press Conference
Page 295

Use of Fund Resources
Page 296

Currency Units per SDR
Page 297

From the Executive Board
Page 297

SELECTED TOPICS

World Economic Outlook
Page 301

Managing Director Reappointed

The Executive Board of the IMF has unanimously appointed Michel Camdessus to serve a second five-year term as Managing Director and Chairman of the Executive Board of the IMF beginning January 16, 1992. (See press release on page 300.)

IMF ACTIVITIES

Annual Report...

IMF Helped Members Cope With Middle East Crisis in 1991

A major challenge faced by the IMF in the financial year 1990/91 (ended April 30, 1991) was to help its members cope with the Middle East crisis, according to the 1991 *Annual Report* of the IMF's Executive Board to the Board of Governors. The IMF also supported comprehensive programs of stabilization and structural reform in a number of Eastern European countries.

The Report, which was released on October 2, has two main sections. The first briefly reviews major developments in the world economy in 1990 and early 1991 as well as important trends in industrial and developing countries. The second focuses on the IMF's policies and activities in 1990/91, including its role in surveillance, the debt strategy, and trade policy; its financial support of member countries; and its financial operations.

Middle East Crisis

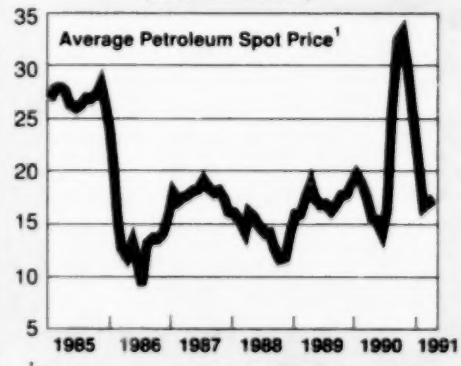
The Middle East crisis, which broke out in August 1990, heightened uncertainty in the world economy, according to the Report. It also intensified the problems of a number of developing countries that were already experiencing difficulties. Notably, many countries were hit by increases in oil prices; declines in earnings from merchandise exports, tourism, and workers' remittances; and higher expenditures associated with resettling returning workers.

The Report indicates that, in responding to the crisis, the IMF's Executive Board saw no need to create new lending facilities, stressing that the adaptation of existing instruments would suffice to meet members' adjustment and financing needs. It decided to adapt the IMF's instruments by

- Modifying or rephasing the amount of financing available to members under arrangements, as appropriate, to take into account the effects of developments in the Middle East;
- Suspending, until the end of 1991, the lower annual, three-year, and cumulative borrowing limits under the enlarged access policy;
- Allowing the IMF to increase total ESAF (enhanced structural adjustment facility) financing for members at the time of mid-term reviews of such arrangements;
- Permitting the IMF to add a fourth year of ESAF support for countries that will complete their current ESAF arrangements before November 1992;
- Introducing, until the end of 1991, an oil import element into the compensatory and contingency financing facility (CCFF) to offset the sharp, unexpected increase in oil and natural gas import costs;
- Expanding the coverage of compensatory financing under the CCFF to include losses resulting from shortfalls in receipts from pipelines, canals, shipping, transportation, construction, and insurance; and
- Attaching an external contingency mechanism to IMF arrangements at the time of a review, provided it is done at least six months before the expiration of the underlying arrangement.

Oil Prices Soared in Wake of Middle East Crisis

(U.S. dollars a barrel)



[1] The average petroleum spot price is defined as the average of the monthly spot prices of U.K. Brent (light), Dubai (medium), and Alaska North Slope (heavy).

Data: IMF, *Annual Report*, 1991

Economic Developments

The Report indicates that, apart from the Middle East crisis and associated developments in oil prices, the global economic setting in 1990 was marked by restructuring in Eastern Europe and the unification of Germany, as well as by the persistence of the debt crisis. World economic growth slowed to 2 percent during the year, from 3¼ percent in 1989.

Reviewing the performance of different country groups, the Report points out that in the industrial countries as a group:

- Economic growth slowed last year to 2½ percent, from 3¼ percent in 1989.
- Inflation rose to 5 percent in 1990, from 4½ percent the previous year, partly because of higher oil prices.
- Current account imbalances in Germany, Japan, and the United States narrowed in 1990.

In the developing countries, the Report notes that:

- The economic slowdown last year was more pronounced than in the industrial countries: real GDP growth declined to ½ of 1 percent, from 3 percent in 1989.
- Inflation has picked up sharply in the past two years, reflecting developments in a few high-inflation countries in Eastern Europe and the Western Hemisphere.
- The aggregate current account deficit fell to $8 billion from $14 billion in 1989.

Refugees at Iraq's border with Jordan: the sudden influx of returning workers during the Middle East crisis caused economic hardship for many countries.

External Debt

The Report indicates that, by the end of April 1991, IMF support for debt and debt-service reduction had been approved for seven countries, most of which had successfully completed debt-reduction operations aided by IMF resources. Referring to reviews of the debt strategy during 1990/91, the Report points out that the Executive Board reaffirmed the main elements of the strategy—notably, the case-by-case approach and the importance of debtor countries' adopting sound economic policies to promote normal debtor-creditor relations. It saw no need to modify substantially the guidelines on IMF support for debt operations.

Directors noted that many heavily indebted countries have made progress in negotiating or implementing bank financing packages—although the negotiations have often been drawn out. The Board also stressed the important role official bilateral creditors have played by supporting debtors' policy adjustment efforts. It welcomed further consideration of the recent proposals by a number of official creditors to introduce additional concessions for low-income debtor countries and the continuing review of these issues in the Paris Club.

Important and tough challenges remain, however: many countries' unresolved bank debts pose serious difficulties, and some of these countries have large and growing arrears to banks. Even if they adopt and sustain strong adjustment policies, they will need substantial financing to normalize their financial relations. In addition, many countries with heavy official bilateral debts continue to face problem.

Financial Support

In 1990/91, the IMF committed a total of SDR 5.6 billion in support of macroeconomic and structural policies in its member countries, according to the Report. This level was below the SDR 11.3 billion committed in 1989/90, but was well above that of the six previous years.

A striking feature of IMF financial support during 1990/91 was its sharp increase toward the end of the period, for two main reasons, according to the Report:

- Commitments to five Eastern European countries (Bulgaria, Czechoslovakia, Hungary, Poland, and Romania)—accounting for two thirds of the IMF's total commitments during 1990/91—were made during the last four months of the financial year.
- Drawings under the CCFF more than doubled to SDR 2.1 billion—largely reflecting the addition to the facility of the oil element.

Collaboration

The IMF and the World Bank "have complementary roles in promoting sustained economic growth, stability and development . . . ," the Report notes, and it points to an August 1990 review of the collaboration between

the two institutions by their respective Executive Boards.

During this review, the IMF's Board agreed that the main responsibility of the IMF is in the area of macroeconomic policies and related policy instruments and institutions. The World Bank's primary responsibility lies in structural reforms and policies for effectively allocating resources to both the public and private sectors. The two Boards urged the staff of each institution to focus on the areas of its primary responsibility and expertise.

Among other developments during 1990/91, the Report states that the IMF and the World Bank have collaborated in providing financial and technical support to Eastern European countries that are making the transition to market economies. They have also coordinated their responses to the Middle East crisis and their economic support to the region in the aftermath of the conflict.

Operations and Policies

The Report points out that the IMF's quota increase from SDR 90.1 billion to SDR 135.2 billion, which the Board of Governors authorized in June 1990, will not come into effect before the Third Amendment of the IMF's Articles of Agreement. This amendment would provide for the suspension of voting and related rights of members that do not fulfill their obligations under the Articles. The Third Amendment becomes effective when it is accepted by three fifths of the IMF's members, or 85 percent of total voting power on May 30, 1990. As of the end of September 1991, 40 members accounting for 33.9 percent of voting power had accepted the proposed amendment.

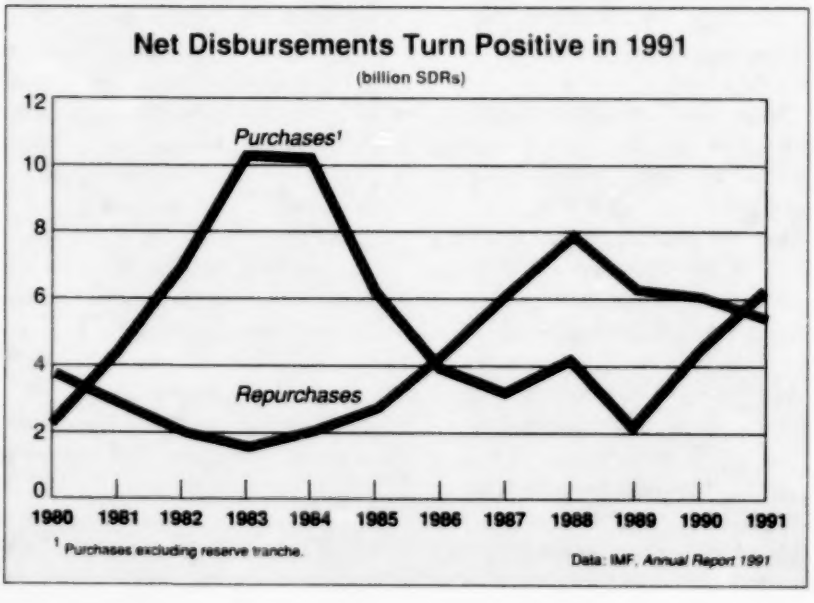
With regard to financial operations, in 1990/91, total purchases from the General Resources Account increased substantially to SDR 6.2 billion, from SDR 4.4 billion in the previous financial year. Repurchases (repayments) amounted to SDR 5.4 billion—SDR 0.6 billion less than in 1989/90. According to the Report, repurchases, which peaked in 1987/88, "are expected to continue downward in the near future," reflecting a decline in the use of IMF credit during the latter half of the 1980s and the revolving, medium-term nature of the IMF's balance of payments lending.

Overdue obligations to the IMF "remained a serious problem in 1990/91," according to the Report—although the absolute increase and the rate of growth of such obligations were the lowest since 1983. The total amount of overdue obligations to the IMF rose from SDR 3.3 billion at the end of 1989/90 to SDR 3.4 billion in 1990/91.

The Report points out that in 1990/91, the IMF continued to implement its strengthened cooperative strategy for resolving members' arrears problems. It adds that this strategy "has led to some encouraging progress": during the year, no members were declared ineligible to use the general resources of the IMF; and declarations of ineligibility previously in effect with respect to Guyana and Honduras were lifted after those members fully settled their arrears in June 1990. Four other members—Panama, Peru, Viet Nam, and Zambia—have undertaken to stabilize the level of their arrears by, at a minimum, making payments equivalent to newly maturing obligations to the IMF.

Membership

The Report notes that during 1990/91, four countries joined the IMF (Bulgaria, Czechoslovakia, the Mongolian People's Republic, and Namibia) bringing the total number of members to 155. In addition, two other countries—Albania and Switzerland—applied for membership.



Copies of the 1991 *Annual Report* may be obtained in English, French, German, and Spanish from Publication Services, Box S-330, International Monetary Fund, 700 19th Street, N.W., Washington, D.C. 20431, U.S.A.

Camdessus Explains Special Association Agreement Between IMF and U.S.S.R.

Following are excerpts from a statement given by IMF Managing Director Camdessus before a press conference held in Moscow on October 5:

I have just finished a very fruitful and constructive meeting with President Gorbachev, and it is with the greatest satisfaction that I can announce that Mr. Gorbachev and I, on behalf of the International Monetary Fund, have signed an agreement under which the U.S.S.R. enters into a Special Association with the IMF.

Under this Special Association, the U.S.S.R., which has applied for membership in the IMF, will immediately receive wide-ranging technical assistance from the IMF that will help the authorities from the start in their comprehensive reform of the Soviet economy. The areas of the economy on which the IMF will concentrate in its work in the U.S.S.R. are macroeconomic policies and financial programming, exchange and payments, fiscal, monetary, banking (mainly central), and related issues, and statistics. In addition, the IMF will conduct periodic reviews of the economy and economic policies of the U.S.S.R., similar to the consultations we conduct with our members. The Soviet Union agrees to give, to this effect, the same information needed to facilitate such reviews, as the other members do under the membership rights and obligations.

Under the terms of the Special Association, technical assistance and policy advice of the IMF can be extended to the individual republics at their request.

The Special Association goes into effect immediately. . . . Our top technical assistance experts have already begun the task of identifying the most urgent needs. Teams of IMF experts will intensify work already started with their colleagues in the U.S.S.R. in the fields of macroeconomic policies, fiscal and monetary policies and instruments, and in the area of statistics.

On Monday, October 7, a "working level" IMF mission of 13 staff members from seven departments coordinated by a European Department Division Chief will start meetings with the authorities to initiate contacts for future cooperation in different areas of specialization and to determine immediate needs for assistance. Over the coming weeks and months, these technical assistance plans will be further developed, and broadened to cover other areas of importance to the U.S.S.R. and to the Fund: the exchange and payments system, and financial and macroeconomic programming and management.

The IMF will play the primary role in coordinating technical assistance with the support of the world's major central banks. The IMF is now completing consultations on the formation of nine multinational task forces that will cooperate in the design and delivery of needed technical assistance to modernize central banking structures and operations. All the key central banks of the world have expressed their readiness to be actively involved in this cooperative effort, which will start at the earliest convenience of the Soviet Union's monetary authorities.

The nine areas of specialization include monetary management and money market development, foreign exchange operations and markets, clearing and settlement systems for payments, banking supervision and regulations, government securities markets and domestic public debt management, and the supporting framework in policy research, accounting systems, organizational structure, and legislation.

Finally, in the field of statistics, the IMF is proposing a work program in the fields of our particular competence, namely, balance of payments and public finance. This effort of the IMF will be integrated in a much broader effort involving the main international organizations in the various specialized fields of statistics. It will involve coordinated efforts among the various statistical agencies at the union and republic levels.

We will also put at the disposal of the Soviet Union our own university in the IMF for training high-level professionals in macroeconomics, fiscal, and monetary affairs, and we hope very soon to have many young professionals at the highest levels of the Soviet Union administration and the republics enjoying training in this IMF university—the IMF Institute.

Allow me to add that we want to put at the disposal of the Soviet Union all the potential we have in the IMF for technical assistance, but we cover only a limited scope of competence. Our human resources are limited and we like to work in cooperation with other multilateral and bilateral organizations, which have their own comparative advantage and which share our eagerness to be as supportive as possible for the transformation of the Soviet Union.

Photo Credits: AP/WideWorld, pages 289, 291, and 294; Padraic Hughes-Reid for the IMF, page 303.

U.S.S.R. and the IMF Agree on Special Association Terms

On October 5, 1991, the Managing Director of the IMF and Soviet President Mikhail Gorbachev signed an agreement establishing a Special Association between the U.S.S.R. and the IMF. The text of the agreement follows:

On the Part of the IMF

1. *Reviews of U.S.S.R. Economy.* The IMF shall conduct reviews of the economy and economic policies of the U.S.S.R., similar to the consultations conducted by the IMF with its members under Article IV of its Articles of Agreement; these reviews will involve periodic visits by the IMF staff to the U.S.S.R., discussions between the IMF staff and officials with economic and financial responsibilities in the U.S.S.R., the preparation of analytical reports by the IMF staff assessing economic developments, examination of those reports by the Executive Board of the IMF, and communication to the U.S.S.R. by the Managing Director of the IMF of the views of the Executive Board. In addition, the IMF staff shall be prepared to monitor the implementation of the authorities' economic reform program and to produce related reports; the U.S.S.R. may, subject to Executive Board approval, make these reports available to entities and persons designated by the U.S.S.R.

Citizens line up at a state-owned fruit stand in Moscow: technical assistance is needed to create a better distribution system.

2. *Technical Assistance.* The IMF shall provide to the U.S.S.R. technical assistance on agreed projects in the areas of macroeconomic policies and financial programming, exchange and payments, fiscal, monetary, banking, and related issues, and in statistics.

3. *Training Courses.* The IMF shall invite officials nominated by the U.S.S.R. to training courses offered by the IMF.

4. *IMF Documents.* The IMF shall make available to the U.S.S.R. documents directly related to the functioning of the Special Association, namely, copies of those reports referred to in item 1 above issued to the Executive Board. In addition, the IMF shall make available to the U.S.S.R. the documents constituting the *World Economic Outlook* (*WEO*) and shall consider making available other IMF documents of general interest.

5. *Attendance at IMF Meetings.* The U.S.S.R. shall be invited to send a representative to attend Executive Board meetings when reports under items 1–2 above are being discussed. In addition, the IMF shall consider inviting the U.S.S.R. to send a representative to attend Executive Board meetings when the *WEO* or matters of general interest are being discussed. The U.S.S.R. shall be invited to send a delegation to attend the Annual Meetings of the IMF.

6. *Extension of Undertakings to Union Republics.* Within the framework of this Special Association with the U.S.S.R., the IMF shall give favorable consideration to requests from the Union Republics, taking into account their circumstances, for the extension to them of all or part of the undertakings under items 1–5 above, under

terms and conditions to be agreed between the IMF and the relevant Union Republic. The IMF shall inform the U.S.S.R. of any request by a Union Republic under this paragraph.

On the Part of the U.S.S.R.

1. *Information.* The U.S.S.R. will be expected to provide to the IMF such information, whether initially collected by the central government or by other levels of government, as is required from members of the IMF, including those items listed in Article IV, Section 3(*b*) and Article VIII, Section 5(*a*) of the IMF's Articles of Agreement. Such information would then be available, in accordance with the IMF's policies, for inclusion in IMF publications, including *International Financial Statistics*, the *Annual Report on Exchange Arrangements and Exchange Restrictions*, and the *World Economic Outlook*.

2. *IMF Resident Office.* The U.S.S.R. shall permit the IMF to establish and maintain a resident office in the U.S.S.R. and shall facilitate its establishment and operation.

3. *Privileges and Immunities.* The U.S.S.R. shall accord the IMF and its officials the same status, immunities, and privileges as specified in Article IX of the Articles of Agreement, and those specified in the Convention on the Privileges and Immunities of the Specialized Agencies of the United Nations. Without prejudice to the privileges and immunities referred to in this paragraph, the IMF's resident office in the U.S.S.R., and the staff assigned by the IMF to this office and their dependents, shall have a status and privileges and immunities at least as favorable as those conferred by the U.S.S.R. upon the resident office of any other international financial organization, as well as upon the staff assigned to such office and their dependents.

4. *Contribution to Costs.* The amount of the contribution of the U.S.S.R. for the costs incurred by the IMF under the Special Association shall be determined by agreement between the IMF and the U.S.S.R.

Termination

The Special Association of the U.S.S.R. with the IMF shall be terminated (i) by admission of the U.S.S.R. to membership in the IMF, or (ii) three months after receipt by the U.S.S.R. or the IMF of a written notice of termination from the other party.

Managing Director's Press Conference . . .

Membership Negotiations Can Be Lengthy

Following are excerpts from a press conference held by IMF Managing Director Michel Camdessus in Moscow on October 5:

QUESTION: *The associate status is not full membership. Why has the U.S.S.R. not been given full membership? Do you think it should have it?*

CAMDESSUS: Experience shows that the negotiations for membership can be very lengthy, not for particular political reasons but because there is a need to establish as objectively and fairly as possible the rights of the incoming member to a certain share of capital, which is what we call quota. This entails very complex calculations for which we need a very broad set of data, for instance how to evaluate today the GNP of the Soviet Union.

The second thing that is equally needed, mainly for the rest of the world and the citizens of the Soviet Union, is to know exactly what is the composition of this country, which is in the process of being transformed. So, we thought it would be convenient not to wait for both the economic and constitutional work to be completed to extend to the Soviet Union all the other potential elements of membership and, in particular, technical assistance. This is the reason for the special association—not to lose time.

QUESTION: *How painful will the transformation be, particularly in terms of unemployment and dislocation?*

CAMDESSUS: This country will go through a formidable period of change, with unemployment. People in public enterprises with no real justification and no real job will have to be retrained to have new jobs. But simultaneously, the private sector—the market—will create new jobs not predicted. This is indeed a process of transformation, a process which will require the establishment of effective social sustenance to make more human this difficult process of transition.

QUESTION: *How much technical assistance will the Fund provide?*

CAMDESSUS: The monetary value of the technical assistance is really difficult to evaluate. As a matter of fact, this kind of human exchange has no market value. I could not make a better gift than to bring to this country

the prominent world experts that we are putting at their disposal. We will put at their disposal all the best teams of the IMF and we will make available the technical assistance of all the most important financial organizations. Of course, I will have to go to our Executive Board but I understand that [it] is commited to doing everything we can to speed up the transformation of this country through this temporary technical assistance. And I will insist on its being temporary. The U.S.S.R. has incomparable human resources—we will train their people. What matters is to put at their disposal the know-how accumulated in our institution for 45 years. If this is done by the specialists prominent in these fields, I am sure it will be done rapidly.

QUESTION: *How promptly could financial stabilization measures be undertaken, given the uncertainty about the economic union plan and applications of individual republics to join the IMF?*

CAMDESSUS: I perceive strong determination in the Soviet authorities to speed up the process of economic stabilization. They see the progress that has been presently accomplished in the economic union treaty as a step particularly important to this effect. With the decision taken in Alma Ata and the work that will be done in the following weeks regarding specific implementation decisions that are needed, I believe that the important element will be in place for adopting, at the level of the union, as well as at the level of the republics, the measures needed for stabilization. I think it would be an illusion to believe, in the present state of the Soviet economy, that stabilization could be done at the union or the republic level alone, but has to be done through a joint effort of the union and the republics. Thank you.

Six Countries Drew on IMF Resources in August

The IMF made disbursements to six countries in August. A total of SDR 172.9 million was disbursed under stand-by arrangements to Czechoslovakia (SDR 99.6 million), Jamaica (SDR 10.9 million), and Ro-

Stand-By, Extended, Structural Adjustment Facility (SAF), and Enhanced Structural Adjustment Facility (ESAF) Arrangements as of August 31

(million SDRs)

Member	Date of Arrangement	Expiration Date	Amount Agreed	Undrawn Balance
Stand-by arrangements			**4,025.87**	**2,706.29**
Algeria	June 3, 1991	March 31, 1992	300.00	225.00
Argentina	July 29, 1991	June 30, 1992	780.00	633.75
Bulgaria	March 15, 1991	March 14, 1992	279.00	151.13
Congo	August 27, 1990	May 26, 1992	27.96	23.98
Costa Rica	April 8, 1991	April 7, 1992	33.64	12.00
Czechoslovakia	January 7, 1991	March 6, 1992	619.50	199.13
Dominican Republic	August 28, 1991	March 27, 1993	39.24	39.24
Egypt	May 17, 1991	November 20, 1992	278.00	218.00
Guyana	July 13, 1990	December 31, 1991	49.50	6.54
Honduras	July 27, 1990	February 17, 1992	30.50	6.95
Jamaica	June 28, 1991	June 30, 1992	43.65	32.75
Nigeria	January 9, 1991	April 8, 1992	319.00	319.00
Papua New Guinea	July 31, 1991	September 30, 1992	26.36	26.36
Philippines	February 20, 1991	August 19, 1992	264.20	207.58
Romania	April 11, 1991	April 10, 1992	380.50	124.80
Uruguay	December 12, 1990	March 15, 1992	94.80	85.80
Yugoslavia	March 16, 1990	September 15, 1991	460.00	394.30
Extended arrangements			**9,665.80**	**4,810.38**
Hungary	February 20, 1991	February 19, 1994	1,114.00	795.58
Mexico	May 26, 1989	May 25, 1992	3,263.40	699.30
Poland	April 18, 1991	April 17, 1994	1,224.00	1,147.50
Tunisia	July 25, 1988	July 24, 1992	207.30	85.00
Venezuela	June 23, 1989	September 22, 1992	3,857.10	2,063.00
SAF arrangements			**652.61**	**172.53**
Benin	June 16, 1989	June 15, 1992	21.91	6.26
Burkina Faso	March 13, 1991	March 12,1994	22.11	15.80
Comoros	June 21, 1991	June 20, 1994	3.15	2.25
Equatorial Guinea	December 7, 1988	December 6, 1991	12.88	9.20
Lao P.D.R.	September 18, 1989	September 17, 1992	20.51	5.86
Pakistan	December 28, 1988	December 27, 1991	382.41	109.26
Rwanda	April 24, 1991	April 23, 1994	30.66	21.90
Sao Tome & Principe	June 2, 1989	June 1, 1992	2.80	2.00
Sri Lanka	March 9, 1988	October 21, 1991	156.17	—
ESAF arrangements			**1,977.17**	**667.53**
Bangladesh	August 10, 1990	August 9, 1993	258.75	115.00
Bolivia	July 27, 1988	December 31, 1991	136.05	45.35
Gambia, The	November 23, 1988	November 22, 1991	20.52	3.42
Ghana	November 9, 1988	November 8, 1991	388.55	48.00
Guyana	July 13, 1990	July 12, 1993	81.52	35.42
Kenya	May 15, 1989	May 14, 1992	261.40	45.23
Lesotho	May 22, 1991	May 21, 1994	18.12	15.86
Madagascar	May 15, 1989	May 14, 1992	76.90	25.63
Mauritania	May 24, 1989	May 23, 1992	50.85	33.90
Mozambique	June 1, 1990	May 31, 1993	85.40	61.00
Niger	December 12, 1988	December 11, 1991	47.18	23.59
Senegal	November 21, 1988	November 20, 1991	144.67	25.53
Tanzania	July 29, 1991	July 28, 1994	181.90	160.50
Togo	May 31, 1989	May 30, 1992	46.08	15.36
Uganda	April 17, 1989	April 16, 1992	179.28	39.84
TOTAL			**16,321.45**	**8,356.73**

Data: IMF Treasurer's Department

mania (SDR 62.4 million). In addition, Benin drew SDR 9.4 million under the structural adjustment facility (SAF), and Kenya and Tanzania drew SDR 35.2 million and SDR 21.4 million, respectively, under the enhanced structural adjustment facility (ESAF).

In August, the Dominican Republic entered into a new arrangement with the IMF. At the end of the month, 46 arrangements were in effect, including 17 stand-by arrangements, 5 extended arrangements, 9 SAF, and 15 ESAF arrangements. IMF commitments under these arrangements totaled SDR 16.3 billion, of which SDR 8.4 billion remained to be drawn.

From the Executive Board

Nicaragua: Stand-By Credit. The IMF has approved a stand-by credit for Nicaragua authorizing drawings of up to SDR 40.86 million (about $55.7 million) over the next 18 months to support the Government's 1991–92 economic program.

The Government that took office in April 1990 inherited a weak economic situation characterized by hyperinflation, prolonged economic contraction, and large internal and external imbalances. To set the foundation for dealing with these problems, the Nicaraguan authorities have forged a consensus among the various political and social groups in the country on the need for macroeconomic adjustment and far-reaching structural measures to reestablish the basis for renewed economic growth.

In March 1991, the authorities began implementation of a concerted economic program, designed with the support of the IMF, the World Bank, and the Inter-American Development Bank [IDB], which is already bearing fruit. Inflation is declining, public sector finances are showing a marked improvement, international reserves are rising, and economic growth is beginning to recover, notably in the agricultural and manufacturing sectors. Against this background, foreign donors have provided financing to help Nicaragua clear its arrears with the World Bank and the IDB,

Currency Units per SDR

Currency	AUGUST 27	28	29	30	SEPTEMBER 2	3	4	5	6	9
Deutsche mark	2.33605	2.34097	2.32358	2.32741	2.33137	2.32980	2.32744	2.32981	2.33985	2.33610
French franc	7.92903	7.94566	7.88981	7.90301	7.91962	7.91264	7.91223	7.91317	7.95303	7.94457
Japanese yen	182.538	182.703	182.958	183.367	182.779	182.631	182.695	181.267	181.94	182.483
Pound sterling	0.794736	0.794833	0.791478	0.792519	0.792995	0.791218	0.790747	0.79084	0.790363	0.793237
U.S. dollar	1.33317	1.33214	1.33839	1.33698	1.3358	1.33795	1.33882	1.33874	1.33827	1.3503
Argentine austral	3278.4	3241.5	3296.9	3316.3	3251.1	3256.1	3286.3	3303.6	3280.2	3374.7
Australian dollar	1.70177	1.69721	1.70449	1.70358	1.70983	1.71529	1.71039	1.70407	1.70328	1.71336
Austrian schilling	16.4233	16.4719	16.3431	16.386	16.4036	16.3872	16.3950	16.3998	16.3986	16.2196
Bahrain dinar	0.501272	0.500885	0.503735	0.502704	0.502261	0.503069	0.50381	0.503742	0.503646	0.507713
Bangladesh taka	40.1866	40.1426	40.3732	40.3212	40.2777	40.357	40.4256	40.423	40.4057	40.8126
Belgian franc	48.0075	48.1069	47.7303	47.8071	47.9385	47.9053	47.8819	47.8885	47.8756	47.4732
Brazilian cruzeiro	511.231	...	519.817	522.719	534.835	529.829	534.548	538.882	542.471	...
Canadian dollar	1.52288	1.51944	1.5283	1.52953	...	1.5262	1.52985	1.52961	1.5257	1.53799
Colombian peso	866.227	866.517	871.734	871.856	872.064	874.591	877.045	877.597	878.615	886.986
Danish krone	9.00823	9.03191	8.97534	8.98852	8.99738	8.98798	8.98148	9.00305	8.97981	8.9859
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	5.68804	5.68794	5.65269	5.66345	5.67314	5.68422	5.68882	5.6871	5.68377	5.61186
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	34.571	34.458	34.5085	34.6331	34.5746	34.6654	34.7138	34.7061	34.6968	34.9324
Indonesian rupiah	2817.01	2816.32	2828.6	2825.83	2824.86	2829.07	2832.94	2832.59	2833.	2864.69
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.414426	0.414105	0.416048	0.41561	0.415243	0.415912	0.416524	0.416468	0.416322	0.419751
Irish pound	0.873065	0.875026	0.868464	0.870883	0.871818	0.870166	0.86967	0.870864	0.869496	0.861965
Italian lira	1742.45	1746.41	1734.89	1738.21	1740.65	1737.7	1737.44	1737.64	1735.33	1723.62
Kuwaiti dinar	0.388446	0.388758	0.389538	...	0.389548	0.388758	0.389586	0.389543	...	0.391278
Libyan dinar	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829
Malaysian ringgit	3.70795	3.70961	3.72407	3.72368	3.72154	3.72351	3.72706	3.72391	3.71946	3.73743
Maltese lira	0.448004	0.449349	0.446537	0.44841	0.448946	0.44833	0.448044	0.448044	0.447931	0.448174
Mexican peso	...	...	...	...	...	...	...	...	...	...
Nepalese rupee	56.9264	56.8624	57.1403	56.9583	57.1722	57.2643	57.3486	57.2069	57.1866	57.6578
Netherlands guilder	2.62584	2.63617	2.61628	2.62408	2.62712	2.62198	2.61941	2.62321	2.61908	2.59686
Norwegian krone	9.11355	9.13648	9.05894	9.09414	9.10681	9.09779	9.08211	9.10796	9.09655	9.01055
Omani rial	0.512804	0.512208	0.514611	0.514059	0.513815	0.514442	0.515199	0.51513	0.514949	0.51919
Pakistan rupee	33.0117	32.9852	33.1409	33.106	33.0769	33.1301	33.1788	33.1744	33.1627	33.4359
Portuguese escudo	199.709	200.295	198.827	199.21	199.641	199.36	199.175	199.256	199.057	197.639
Qatar riyal	4.85274	4.84899	4.87174	4.86801	4.86231	4.87014	4.87731	4.87685	4.87484	4.91909
Saudi Arabian riyal	4.98272	4.98896	5.01227	5.00899	5.00257	5.01062	5.019	5.01733	5.01557	5.06487
Singapore dollar	2.29706	2.29449	2.30136	2.29894	2.29831	2.2982	2.30011	2.30275	2.29946	2.30537
South African rand	3.8382	3.82952	3.83251	3.84179	3.84447	3.84192	3.84301	3.83232	3.83372	3.84701
Spanish peseta	140.438	140.514	144.8	140.024	140.169	144.975	144.884	140.136	144.971	143.946
Sri Lanka rupee	55.8198	55.79	56.025	55.9794	55.97	56.0333	56.0757	56.0849	56.1194	56.5371
Swedish krona	8.46183	8.4624	8.41713	8.44771	8.46829	8.46048	8.44016	8.46247	8.44270	8.37861
Swiss franc	2.03442	2.03484	2.029	2.03665	2.04311	2.04508	2.03930	2.04377	2.0444	2.02342
Trinidad and Tobago dollar	5.69014	5.67575	5.70238	5.69637	5.69134	5.7005	5.7089	5.70613	5.70613	5.75312
U.A.E. dirham	4.89487	4.89029	4.91323	4.90905	4.90972	4.91161	4.91685	4.91619	4.91640	4.95685
Venezuelan bolivar	79.257	79.0968	79.5338	79.3832	...	79.4408	79.6817	79.614	79.5192	80.1741

Note: The above table replaces the table that appeared on page 287 of the September 30 issue. The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

thus making the country eligible for new loans from both institutions.

Nicaragua's economic program for 1991–92 builds upon the gains achieved since March 1991 and aims to further strengthen the balance of payments, lower inflation, and create the conditions for sustained economic growth over the medium term through the continuation of appropriate fiscal, monetary, and wage policies. Structural reform policies will incorporate an increasing reliance on market forces through the elimination and liberalization of restrictions on production and a reduction in the size and scope of the public sector.

The program aims at reducing inflation drastically in 1992, while real GDP is expected to grow, for the first time in seven years, by 3–4 percent in 1992. International reserves are expected to remain stable in 1991 and to grow slightly in 1992. The nonfinancial public sector deficit is projected to narrow from 14 percent of GDP in 1990 to 3 percent of GDP in 1992 through a combination of revenue increases and expenditure cuts, and a tight credit policy will be pursued in support of the program's price and balance of payments objectives. Nicaragua also intends to re-establish relations with its external creditors to deal with its large outstanding stock of external debt, which amounted to about 10 times GDP at the end of 1990.

Structural measures include actions to modernize the legal framework governing banks and other financial institutions and to assure sound operations of the financial system. In addition, trade reforms—including lower tariffs and the removal of foreign exchange surrender requirements for major exports—will be introduced. Divestment of some 350 state-owned enterprises will be accelerated, and price distortions in the production of food grains will be removed.

The Government has established two social funds designed to shield the most vulnerable groups. These funds, financed by external donors and multilateral creditors, are focused on social projects in such areas as primary nutrition, health care, emergency employment, retraining of workers, and credit to microenterprises. Over time, the restoration of price stability and resumption of economic growth will help reduce absolute poverty.

Currency Units per SDR

SEPTEMBER										
10	11	12	13	16	17	18	19	20	23	Currency
2.29484	2.29736	2.29124	2.29350	2.29602	2.27619	2.29495	2.28775	2.2967	2.27987	Deutsche mark
7.80709	7.81439	7.79886	7.80031	7.79448	7.75866	7.78743	7.79087	7.82342	7.76958	French franc
182.567	182.403	182.182	182.133	—	182.24	181.926	182.515	182.226	—	Japanese yen
0.781321	0.784111	0.783873	0.783976	0.784853	0.781858	0.783206	0.784841	0.785294	0.781347	Pound sterling
1.35481	1.35314	1.35652	1.35467	1.35745	1.36354	1.35947	1.35699	1.35283	1.36267	U.S. dollar
3426.2	3429.9	3467.1	3437.8	3445.5	3506.1	3456.6	3441	3398.9	3467.2	Argentine austral
1.7143	1.71566	1.70914	1.70968	1.7047	1.70402	1.69703	1.70241	1.70019	1.70675	Australian dollar
16.1466	16.1633	16.1253	16.1498	16.1156	16.0232	16.0802	16.0963	16.1541	16.0304	Austrian schilling
0.508403	0.508781	0.508676	0.510100	0.510401	0.512888	0.510785	0.510228	0.508884	0.512364	Bahrain dinar
49.9789	49.9173	50.0851	50.0476	51.1623	51.3926	51.2067	51.146	50.9882	51.359	Bangladesh taka
47.2185	47.3159	47.1924	47.2426	47.1816	46.9201	47.0268	47.152	47.2544	47.0291	Belgian franc
564.177	560.701	565.048	571.769	577.669	584.285	585.962	581.586	593.649	601.81	Brazilian cruzeiro
1.54516	1.53947	1.54109	1.54104	1.54166	1.54941	1.54459	1.54222	1.53548	1.54568	Canadian dollar
891.259	891.043	883.884	886.986	897.342	902.159	899.756	899.603	897.752	904.772	Colombian peso
8.86572	8.86963	8.8629	8.86634	8.84379	8.79406	8.8219	8.83808	8.86765	8.81947	Danish krone
—	—	—	—	—	—	—	—	—	—	Ecuadoran sucre
5.58724	5.58794	5.58948	5.60395	5.58882	5.55186	5.56207	5.59087	5.58825	5.58851	Finnish markka
—	—	—	—	—	—	—	—	—	—	Guatemalan quetzal
35.0422	35.1674	35.1470	35.0945	35.1211	35.1881	35.2442	35.0431	35.1027	35.1686	Indian rupee
2663.56	2669.27	2664.86	2665.86	2667.39	2679.4	2680.39	2667.84	2661.02	2680.37	Indonesian rupiah
92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	Iranian rial
0.421153	0.420833	0.421373	0.421731	0.421973	0.423873	0.42229	0.42163	0.420637	0.423688	Iraqi dinar
0.858181	0.858919	0.858639	0.858435	0.85676	0.852225	0.856899	0.858487	0.858376	0.852735	Irish pound
1718.72	1718.86	1715.95	1717.58	1713.06	1704.32	1709.65	1711.99	1718.91	1705.66	Italian lira
0.391419	0.390836	0.391136	—	0.391692	0.392583	0.391117	0.391912	—	0.392594	Kuwaiti dinar
0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	0.383829	Libyan dinar
3.73152	3.73128	3.73448	3.74237	3.74181	3.74843	3.73647	3.73847	—	3.74384	Malaysian ringgit
0.444491	0.444849	0.444856	0.445082	0.445183	0.444605	0.443293	0.445762	—	—	Maltese lira
—	—	—	—	—	—	—	—	—	—	Mexican peso
57.7149	57.6438	57.7452	57.7941	57.5631	58.224	57.8798	57.8078	57.8306	58.186	Nepalese rupee
2.58388	2.5872	2.58132	2.58581	2.58194	2.56717	2.58191	2.57747	2.58780	2.58983	Netherlands guilder
8.96491	8.98214	8.96876	8.98438	8.97546	8.92986	8.96525	8.95423	8.97846	8.93707	Norwegian krone
0.520824	0.520282	0.521197	0.52164	0.52194	0.524389	0.522332	0.521783	0.520163	0.523947	Omani rial
33.5475	—	33.5343	33.5439	33.572	33.7232	33.5292	33.4827	33.39	33.6865	Pakistan rupee
197.210	196.987	196.879	197.007	196.584	196.52	196.094	196.404	197.167	196.709	Portuguese escudo
4.93151	4.92543	4.93409	4.93838	4.94112	4.94336	4.94483	4.93944	4.9243	4.96012	Qatar riyal
5.07376	5.06751	5.07642	5.08073	5.08365	5.10853	5.08747	5.08193	5.08835	5.1032	Saudi Arabian riyal
2.30521	2.30775	2.30574	2.30865	2.30834	2.31055	2.30898	2.30173	2.2944	2.30387	Singapore dollar
3.84561	3.8375	3.83413	3.83804	3.83071	3.84047	3.84376	3.83829	3.83325	3.83866	South African rand
143.637	143.859	143.791	143.918	143.539	142.663	143.627	143.481	144.19	143.329	Spanish peseta
56.6869	56.6885	56.7569	56.8445	56.8772	57.1060	56.9199	56.9257	56.7647	—	Sri Lanka rupee
8.3314	8.36023	8.3378	8.34216	8.33496	8.29726	8.31246	8.33803	8.3517	8.31842	Swedish krona
2.01064	2.00874	2.00888	2.00923	2.00156	1.98871	1.99763	2.00129	2.00667	1.9885	Swiss franc
5.77234	5.78622	5.77536	5.78026	5.78359	5.80982	5.78793	5.78163	5.7639	5.80683	Trinidad and Tobago dollar
4.97361	4.98738	4.97811	4.98034	4.9832	5.00583	4.98694	4.98151	4.98024	5.00236	U.A.E. dirham
80.3741	80.2988	80.4501	80.5048	80.5307	80.9	80.5505	80.4889	80.3243	80.9085	Venezuelan bolivar

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

Nicaragua became a member of the IMF on March 14, 1946. Its present quota is SDR 68.2 million (about $93 million). [A member's quota in the IMF determines, in particular, its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Nicaragua has no outstanding financial obligations to the IMF.

Press Release No. 91/49, September 18

Republic of the Marshall Islands: Application for Membership. The Government of the Republic of the Marshall Islands has filed an application for membership in the IMF. In accordance with prescribed procedures, the application will be considered, first, by the IMF's Executive Board. After its consideration, the Executive Board will submit a report to the Board of Governors of the IMF with recommendations in the form of a "Membership Resolution." These recommendations cover the amount of quota in the IMF, the form of payment of the subscription, and other customary terms and conditions of membership. After the Board of Governors has adopted the "Membership Resolution," the Republic of the Marshall Islands would need to take the legal steps required under its law to enable it to sign the IMF's Articles of Agreement and to fulfill the obligations of membership in the IMF.

Press Release No. 91/50, September 19

Côte d'Ivoire: Stand-By Credit. The IMF has approved a stand-by credit for Côte d'Ivoire, authorizing drawings up to the equivalent of SDR 82.75 million (about $113 million) over the next 12 months in support of the country's economic and financial reform program for 1991/92.

Since 1986, the Ivoirien economy has experienced severe external shocks. Its terms of trade declined by more than 40 percent between 1985 and 1990 owing to the sharp fall in world market prices for cocoa and coffee; the ensuing adjustment measures were complicated by the decline in the value of the U.S. dollar and the currencies of Côte d'Ivoire's external competitors, resulting in a significant appreciation of the effective exchange rate and a sizable loss of external competitiveness. These factors, as well as the heavy external debt and debt-service obligations, put pressure on the balance of payments and public finance.

Faced with a contraction of real output and a severe deterioration in public finances, the Government of Côte d'Ivoire initiated an adjustment program in July 1989 that was revised in June 1990 to redress the situation and correct domestic and external imbalances. The program outcome was mixed, but substantial progress was made in reducing the fiscal imbalances; comprehensive structural reforms were introduced in agriculture, energy, and water supply sectors; progress was made in restructuring and privatizing public enterprises; and regulatory reforms were introduced to improve competitiveness and efficiency.

The program for 1991/92, which the present stand-by credit supports, has been formulated in the context of the broad macroeconomic objectives of resuming real per capita growth and restoring external balance. Specifically, the main program objectives are (1) the achievement by 1992 of an overall financial surplus in the Government's domestic operations; (2) the elimination of all domestic arrears and the restructuring of the Government's domestic debt; (3) an improvement in the net foreign asset position of the Central Bank; and (4) implementation of further structural reforms, particularly in the financial, industrial, and human resources sectors. Important additional structural measures are envisaged under the current program in the areas of privatization, price liberalization, promotion of competition, deregulation of the labor market, and simplification of investment procedures. At the same time, steps will be taken to reform the insurance sector and business law.

The Government has the firm intention of addressing the fundamental weaknesses of the economy. Nevertheless, it is clear that there will be a continuing need for exceptional financial assistance and debt relief on a relatively large scale in the years ahead.

Côte d'Ivoire joined the IMF on March 11, 1963. Its quota is SDR 165.5 million (about $226 million), and its outstanding financial obligations to the IMF currently total the equivalent of SDR 247.7 million (about $338 million). [A member's quota in the IMF determines the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.]

Press Release No. 91/51, September 20

Mozambique: Enhanced Structural Adjustment Facility. The IMF has approved a loan equivalent to SDR 30.5 million (about $41 million) for Mozambique in support of the country's second annual program under the enhanced structural adjustment facility (ESAF). [The ESAF is an IMF concessional facility for assisting its low-income members that are undertaking economic reform programs to strengthen their balance of payments and improve their growth prospects. Loans under the facility carry an interest rate of 0.5 percent, and are repayable over 10 years with a 5 1/2-year grace period. The loan is available in two equal semiannual disbursements with the first drawing available immediately.

Following considerable success during 1987–89 in improving the economic situation, Mozambique's economy experienced serious setbacks during 1990 in its effort to sustain recovery and slow inflation. Partly owing to external shocks and supply-side difficulties, but also reflecting an accommodating monetary stance, real growth fell to about 1.5 percent from 5 percent in the previous year, the rate of inflation accelerated to some 47 percent, and external imbalances persisted.

The program for 1991/92, which the current ESAF credit supports, seeks to return the economy to a path of recovery and decelerating inflation and to deepen the process of transformation to a market economy. The program is built around unification of the exchange rate at a market-based rate, coupled with the strengthening of fiscal and monetary policies and supply incentives necessary to support the recovery process. It focuses on reducing distortions and imbalances and on the authorities' providing the right pricing signals while also implementing targeted measures to cushion any resulting hardships for the most vulnerable groups.

Specific macroeconomic objectives include an upturn in the pace of economic growth to 4.5 percent in 1991 and 5.0 percent in 1992. The rate of inflation is projected to slow from 47 percent in 1990 to 35 percent in 1991 and 20 percent in 1992. Other key policy targets include reducing the budget deficit, including grants, to 5.0 percent and 4.2 percent of GDP in 1991 and 1992, respectively, and restraining monetary expansion. Both the external current account deficit and the overall balance of payments deficit are expected to decline slightly in 1991 and 1992. To improve the debt profile, the authorities are endeavoring to limit new external borrowing mostly to concessional credits, as well as to increase the share of grants in total aid.

Mozambique joined the IMF on September 24, 1984. Its quota is SDR 61 million (about $83 million). [A member's quota in the IMF determines the amount of its subscription, its voting power, its access to IMF financing, and its allocation of SDRs.] Mozambique's outstanding financial obligations to the IMF, including SAF/ESAF loans, currently total SDR 67.1 million (about $91 million).

Press Release No. 91/52, September 20

Gabon: Stand-By Credit. The IMF has approved a stand-by credit for Gabon, authorizing drawings up to the equivalent of SDR 28 million (about $38 million) over the next 18 months in support of its economic reform program.

Gabon's dependency on oil revenues, inadequate diversification of its economy, and a heavy debt burden have given rise to large financial imbalances. With the decline in oil revenues in the mid-1980s, the country's economic and financial situation became increasingly difficult. In 1986, the Government undertook two consecutive adjustment programs supported by the IMF, aimed at containing public spending, strengthening non-oil receipts, and reforming public enterprises. However, social unrest in 1989–90 led to an increase in budgetary spending while depressing economic activity in the non-oil sector. Higher oil income in the latter part of 1990 and exceptional revenues from asset sales attenuated the situation somewhat. Nevertheless, fiscal imbalances persisted, and large arrears were accumulated on the external debt.

The economic and financial program for 1991–92, which the current stand-by credit supports, seeks to generate growth in the non-oil sector of 3.4 percent in 1991 and 2.5 percent in 1992 while limiting the rate of inflation to 2–3 percent a year. The overall balance of payments deficit is to be substantially reduced, with the projected gaps to be financed by external debt rescheduling and other exceptional financing.

Fiscal adjustment and the restructuring of public enterprises will be at the core of the program. Budgetary dependence on oil is to be gradually reduced. This will require improving the savings performance, increasing the overall efficiency of resource allocation, and promoting the diversification of the economy. During the program period, oil revenues will be earmarked in order to maintain a satisfactory level of development expenditure.

The emergence of a broadly based non-oil sector is fundamental to restoring steady and sustainable economic growth. Since diversification is hampered by the high cost of services and labor, the Government's strategy is to build up the infrastructure in the economic, educational, and other social sectors; improve the economic and legal environment for private business; and encourage savings and financial intermediation.

Measures have also been implemented to enhance non-oil revenues, improve customs administration, widen the tax base, and improve real estate taxation. To ensure more transparency in the oil marketing procedures, an audit of the oil sector is being carried out by international experts, and the ensuing recommendations are expected to be implemented during the program period.

Gabon joined the IMF on September 10, 1963. Its quota is SDR 73.1 million (about $99 million). [A member's quota in the IMF determines the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.] Gabon's outstanding financial obligations to the IMF currently total the equivalent of SDR 84.5 million (about $115 million).

Press Release No. 91/53, October 1

Latvia: Application for Membership. The Government of the Republic of Latvia has filed an application for membership in the IMF. In accordance with prescribed procedures, the application will be considered, first, by the IMF's Executive Board. After its consideration, the Executive Board will submit a report to the Board of Governors of the IMF with recommendations in the form of a "Membership Resolution." These recommendations cover the amount of quota in the IMF, the form of payment of the subscription, and other customary terms and conditions of membership. After the Board of Governors has adopted the "Membership Resolution," the Republic of Latvia would need to take the legal steps required under its law to enable it to sign the IMF's Articles of Agreement and to fulfill the obligations of membership in the IMF.

Press Release No. 91/54, October 1

Camdessus Reappointed to Second Five-Year Term. The Executive Board of the IMF has unanimously appointed Michel Camdessus to serve a second five-year term as Managing Director and Chairman of the Executive Board of the IMF beginning January 16, 1992.

In a brief acceptance statement, Mr. Camdessus thanked the Executive Board, saying that he looks forward to the challenges ahead and to working together with the Board to fulfill the purposes of the IMF. "Our joint work over the past five years has been the source of many satisfactions, but much remains to be done. It is with pleasure and anticipation that I agree to continue in my position," Mr. Camdessus added.

Mr. Camdessus, the seventh Managing Director of the IMF, was appointed by the Executive Board in December 1986 for his first five-year term and assumed his duties on January 16, 1987.

Before his appointment as Managing Director, Mr. Camdessus, 58, was Gover-

nor of the Bank of France (1984–87), Director of the French Treasury (1982–84), and Chairman of the Paris Club (1978–84). Mr. Camdessus was educated at the University of Paris and earned postgraduate degrees in economics at the Institute of Political Studies of Paris and the National School of Administration.

Designated Administrateur Civil in the French Civil Service, Mr. Camdessus joined the Treasury in the Ministry of Finance and Economic Policies in 1960. After having served as Financial Attaché to the French delegation at the European Economic Community in Brussels from 1966 to 1968, he returned to the Treasury and went on to become Assistant Director in 1971, Deputy Director in 1974, and Director in February 1982. While on these assignments, Mr. Camdessus chaired the Paris Club meetings of creditor countries for six years and was Chairman of the Monetary Committee of the European Economic Community from December 1982 to December 1984. In August 1984, Mr. Camdessus was appointed Deputy Governor of the Bank of France. He became Governor of the Bank of France in November 1984.

Mr. Camdessus was named Alternate Governor of the Fund for France in 1983 and Governor of the Fund in November 1984.

He is married to Brigitte d'Arcy and has six children.

Press Release No. 91/55, September 30

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
October 7	7.19
October 14	7.17

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF Treasurer's Department

SELECTED TOPICS

IMF Projects Slow Growth Of World Economy in 1991

The world economy is expected to grow by a scant 1 percent in 1991, the lowest rate in any year since the industrial country recession of 1982, according to the IMF staff's newest *World Economic Outlook* (*WEO*).

The main section of the report, which was released to the press before the 1991 Annual Meetings in Bangkok, Thailand, projects that average output growth in the industrial countries as a group will reach only 1¼ percent in 1991, reflecting a fall in economic activity in a number of countries. Output in the developing countries taken as a group is expected to decline by ½ of 1 percent this year owing to a further sharp contraction of output in Eastern Europe and the U.S.S.R., as well as to a substantial decline in economic activity in the Middle East.

The global economy appears poised for a relatively moderate rebound in 1992, however, according to the *WEO*, with output rising by 2¾ percent and world trade growing by 5 percent. The projected pickup in the industrial countries reflects an anticipated recovery from recession in North America, the United Kingdom, and some other industrial countries during 1991; the recent decline in oil prices; and the end of the uncertainties associated with the conflict in the Middle East.

The *WEO* projects that growth in the industrial countries will average 2¼ percent in 1992, roughly in line with the estimated growth of potential output. In most countries, the 1990–91 slowdown reduced pressure on capacity; this should continue to moderate inflation, which is projected to fall below 4 percent in 1992. Cyclical divergences among the industrial countries are expected to subside in 1992.

In developing countries other than the U.S.S.R. and those in Eastern Europe, the *WEO* projects economic growth in 1992 to pick up to 4¼ percent, double the pace expected this year. This projection includes a sharp rebound in the Middle East, reflecting postwar reconstruction and a return to more normal trade within the region, and stable or higher growth in Africa, Asia, and the Western Hemisphere.

The contraction of economic activity associated with the initial stages of structural reform in Eastern Europe is expected to bottom out in 1991, and output is projected to increase modestly next year. However, output in the U.S.S.R. is expected to fall further in 1992, reflecting slow progress in implementing economic reforms, the dissolution of the old system of central control, and continued uncertainty about the future course of economic policy. (Projections for the U.S.S.R. are themselves subject to an extraordinary degree of uncertainty.)

The *WEO* projects that average inflation in the developing countries will drop substantially in 1992, with sharp falls in some high-inflation countries in Eastern Europe and the Western Hemisphere. Both the drop in inflation and the relatively strong growth projected for the developing countries depend crucially on the assumption of

further progress in macroeconomic stabilization and structural reform in a number of countries.

Medium-Term Outlook

As in previous *WEOs*, the staff presents medium-term baseline projections based on a number of technical assumptions. These assumptions include:

- unchanged policies;
- constant real effective exchange rates among the major currencies and constant nominal bilateral rates among the countries participating in the exchange rate mechanism of the European Community at the levels that prevailed in the first three weeks of August; and
- a world price of oil averaging $18.43 a barrel in 1991, rising to $18.61 a barrel in 1992, and remaining unchanged in real terms in subsequent years.

Based on these assumptions, the *WEO* projects that real GDP growth in the industrial countries will recover to an average of 3 percent during 1992–96 from 1 1/4 percent this year. This would reflect a recovery from recession in the United States, the United Kingdom, Canada, and some of the smaller industrial countries (Australia, Finland, New Zealand, and Sweden), as well as a pickup in growth in France, Italy, and some of the other European countries (Belgium, Denmark, Norway, Portugal, and Switzerland). In all of the major industrial countries, total domestic demand would grow approximately at the same rate as output during 1993–96, and changes in trade and current account balances would be relatively small in relation to GNP.

The developing countries, particularly those with debt-servicing difficulties, face a number of challenges over the medium term, according to the *WEO*. First, there is some concern about the implications of the potential demands on global saving from Eastern Europe, the U.S.S.R., the Middle East, and a few other developing countries. Second, although debt-export ratios have generally fallen and there has been some progress in addressing debt-servicing problems, a number of debtor countries continue to face uncertain prospects for restoring normal financial relations with their creditors, and the situation in many low-income countries remains a cause for concern. Third, although

Overview of the World Economic Outlook

(annual percent changes, unless otherwise noted)

			Current Projections		Differences from May 1991 Projections	
	1989	1990	1991	1992	1991	1992
World output	**3.3**	**2.2**	**0.9**	**2.8**	**-0.3**	**-0.1**
Industrial countries	3.3	2.6	1.3	2.8	—	—
United States	2.5	1.0	-0.3	3.0	-0.5	0.3
Japan	4.7	5.6	4.5	3.4	0.9	-0.5
Germany (west)	3.8	4.5	3.1	2.0	0.3	0.1
Developing countries	3.2	1.0	-0.6	2.9	-1.4	-0.5
Africa	3.5	2.1	3.2	3.3	1.1	-1.5
Asia	5.4	5.5	5.0	5.2	—	—
Europe	1.9	-2.7	-9.6	-3.3	-6.1	-1.6
Middle East	4.6	0.7	-4.0	11.2	-0.7	2.7
Western Hemisphere	1.4	-0.9	1.2	2.2	0.2	-1.1
Memorandum						
Eastern Europe[1] and the U.S.S.R.	1.9	-3.6	-10.6	-3.9	-6.5	-1.7
Eastern Europe	-0.7	-7.9	-12.0	2.1	-10.7	-0.5
Developing countries excluding Eastern Europe and the U.S.S.R.	3.7	2.5	2.4	4.8	0.1	-0.1
Newly industrializing economies[2]	6.3	6.7	6.2	6.1	0.5	0.3
World trade volume	**6.9**	**4.3**	**0.6**	**5.0**	**-1.8**	**-0.5**
Commodity prices						
Oil[3]						
Annual percent changes	21.5	28.2	-16.4	1.0	5.7	-3.0
U.S. dollars per barrel	17.19	22.05	18.43	18.61	1.25	0.74
Non-fuel[4]	-0.5	-7.9	-5.7	3.3	-3.0	0.1
Consumer prices						
Industrial countries	4.4	4.9	4.5	3.8	-0.3	-0.1
Developing countries	79.9	91.0	58.7	22.8	17.8	4.8
Six-month LIBOR (in percent)[5]	9.3	8.4	6.6	7.0	-0.1	–

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during August 1–22, 1991 except for the bilateral rates among the ERM currencies, which are assumed to remain constant in nominal terms. This implies a real effective depreciation of the U.S. dollar by about 2 percent relative to the assumption underlying the May 1991 *World Economic Outlook*.

[1] The Eastern European countries (Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia) and the U.S.S.R. are included in the developing countries of Europe.

[2] Hong Kong, Korea, Singapore, and Taiwan Province of China.

[3] Simple average of the U.S. dollar spot prices of U.K. Brent, Dubai, and Alaska North Slope crude oil; assumptions are for 1991 and 1992.

[4] In U.S. dollars based on world trade weights.

[5] London interbank offered rate on six-month U.S. dollar deposits; assumptions are for 1991 and 1992.

Data: IMF, *World Economic Outlook*, October 1991

some countries have successfully tackled macroeconomic and structural problems, in many others progress has been slow or negligible, and in a few others new imbalances appear to be emerging.

Another area of concern is external trade. More and more developing countries have recognized the benefits of an outward-oriented trade system, and 45 developing countries have launched unilateral trade reform efforts since the start of the Uruguay Round of multilateral trade negotiations. The outcome of the Uruguay Round remains of crucial importance for the developing countries.

The medium-term baseline projections for the industrial countries suggest some improvement in the external economic environment for the developing countries. The combination of a broadly favorable external economic environment and the assumed implementation by developing countries of sound economic policies is projected to result in a significant improvement in their aggregate economic performance over the medium term. Inflation in the developing countries as a group would decline from 40 percent in 1991–92 to 23 percent in 1993–96, with the steepest decline occurring in countries with adjustment programs. The decline in inflation and other policy improvements are expected to contribute to a strong recovery of domestic saving and investment, particularly in countries with recent debt-servicing difficulties, where the investment-output ratio is projected to rise by about 2 percentage points.

Assuming that policy improvements boost investment and productivity, the *WEO* projects that output growth in the developing world will reach an annual average of 4 percent in 1993–96. In part, this recovery would reflect the high rates of growth projected for countries in the Middle East, mainly as a result of the assumptions made about postwar reconstruction in Iraq and Kuwait. In contrast, the medium-term outlook for the Eastern European countries and the U.S.S.R. remains highly uncertain, and growth is projected to average only about 1 percent a year for this region in 1993–96—considerably less than the growth rate that would be required to reverse the output losses suffered in 1990–92.

In Africa and the Western Hemisphere, the more favorable external environment and the assumed success of adjustment programs are expected to contribute to stronger growth over the medium term, although these projections are subject to some downside risk. Asia's relatively strong economic performance is expected to continue, with growth averaging 5¼ percent in 1993–96.

Ernesto Hernandez-Cata on the World Economic Outlook: rising demands on global saving.

Policy Issues

The *WEO* suggests that given an anticipated decline in private saving in industrial countries, governments must achieve a substantial reduction in their absorption of saving during the first half of the 1990s to sustain growth at the levels achieved in the 1980s. This, in turn, will require that they fully implement deficit-reduction plans, such as those already announced in the United States, Germany, Italy, and Canada, which will involve considerable restraint on spending. Although the *WEO* projects a reduction in average inflation in the industrial countries, these countries must be prepared to use monetary policies to counter price pressures as the expansion proceeds.

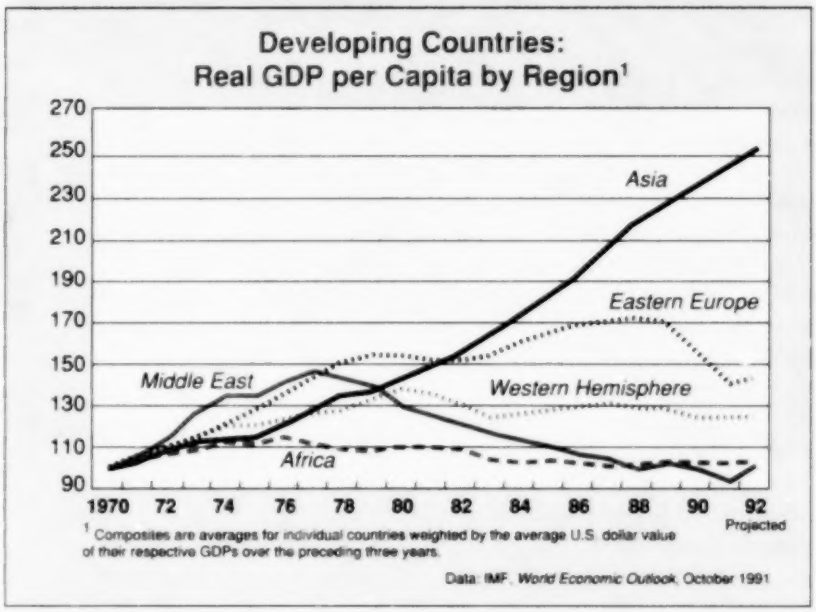
On structural policies, the *WEO* notes that the persistence of high rates of unemployment in a number of European countries after the long expansion of the 1980s points to the importance of microeconomic policies, such as training and retraining programs, improved job placement services, and, in some countries, reductions in minimum wages and reform of unemployment insurance systems.

The *WEO* also focuses on the implications of rising demands on global saving and the appropriate policy response. It presents a medium-term scenario to illustrate the international repercussions of the new demands on saving associated with reconstruction in the Middle East, German unification, and reform in Eastern Europe and the U.S.S.R. The analysis suggests that, although the impact on world interest rates and incomes would not be negligible, it is unlikely to be large. The best policy response to these developments would be to intensify fiscal consolidation in the industrial countries, thereby increasing the supply of world saving, and to ensure that official financial assistance is accompanied by stabilization policies and structural reforms in the recipient countries to ensure an adequate return on capital.

In discussing policy issues in the developing countries, the *WEO* places special emphasis on developments in

Eastern Europe and the U.S.S.R. It notes that the evolution from central planning to market-oriented economic systems based predominantly on private enterprise is lengthy and difficult, and that primary responsibility rests with the governments of these countries. External assistance is also crucial, however, and should include improved access to industrial country markets, financial support, and technical assistance. Even with swifter action on trade access, the *WEO* points out that the need for exceptional financial assistance is likely to continue until the external position can be sustained on the basis of improved export earnings and higher private capital inflows.

The *WEO* analyzes the evolution of the pattern of international saving flows to evaluate the importance of concerns about the impact on developing countries of the increased demand for world saving. It concludes that the impact of these new demands for saving on output and debt-service ratios in the net debtor developing countries is likely to be relatively small. Nevertheless, prospects for a resumption of voluntary lending to the indebted developing countries as a group are generally poor. Against this background, the *WEO* examines the variables that influence the international allocation of saving and considers how policies can contribute to an increased flow of foreign capital to the indebted developing countries.



Regarding the debt strategy, recent progress in this area confirms that financial support tailored to individual country circumstances can strengthen the prospects for sustained economic growth and the restoration of external viability in countries that also adopt domestic policies to restore private sector confidence. Highly indebted countries facing severe economic problems may have to reduce their stock of foreign debt to achieve external viability in the medium term. In the case of several low-income countries, a sustained flow of concessional financing may need to be supplemented by greater concessionality in restructuring their bilateral official debt. Industrial countries can assist indebted countries by promoting a favorable external economic environment.

Copies of the *World Economic Outlook*, October 1991 will be available at the end of October for US$30.00 (US$20.00 for full-time faculty members and students at universities and colleges) from Publication Services, Box S-331, International Monetary Fund, Washington, D.C. 20431, U.S.A.

IMF SURVEY
October 14, 1991
Volume 20, Number 19
Gerald R. Rosen, *Editor*
Pamela J. Bradley, *Senior Editor*
Vikram R. Khanna, *Assistant Editor*
Sheila Meehan, *Assistant Editor*
Susan Scott, *Art Editor*
Philip Torsani, *Graphic Artist*

The *IMF Survey* (ISSN 0047-083X) is published by the International Monetary Fund 23 times a year, ordinarily on alternate Mondays, in addition to an annual *Supplement on the Fund*, an annual Index, and other occasional supplements. Editions are also published in French (*Bulletin*) and Spanish (*Boletin*).The opinions and materials contained in the *IMF Survey*, including any legal aspects, do not necessarily reflect the official views of the IMF. Editorial correspondence should be addressed to Current Publications Division, Room IS5-1500, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-8585. The *IMF Survey* is distributed by first-class mail in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged an annual rate of US$60.00. Apply for subscriptions to Publication Services, Box S-99, IMF, Washington, D.C., 20431, U.S.A. Telephone: (202) 623-7430. Cable: Interfund. Facsimile: (202) 623-7201.